

Notice of meeting of

Audit & Governance Committee

To: Councillors Jeffries (Chair), Barnes, Brooks (Vice-Chair), Burton, Cuthbertson, Watson and Steward

Date: Monday, 13 February 2012

Time: 5.30 pm

Venue: The Guildhall, York

AGENDA

Note:

As agreed at previous meetings, the Chief Internal Auditor and District Auditor (Audit Commission) will be present in the meeting room from 5:00 pm to provide a private briefing for Members, if required. Please note there will also be a training session for Audit & Governance Committee members from 4pm prior to this meeting.

1. Declarations of Interest

At this point Members are asked to declare any personal or prejudicial interests they may have in the business on this agenda.

2. Exclusion of Press and Public

To consider the exclusion of the press and public from the meeting during consideration of Annex 1 to Agenda Item 10 on the grounds that it contains information relating to prevention, prosecution or investigation of crime. This information is classed as exempt under

paragraph 7 of Schedule 12A to Section 100A of the Local Government Act 1972 (as revised by The Local Government (Access to Information) (Variation) Order 2006).

3. Minutes (Pages 3 - 10)

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on **5 December 2011**.

4. Public Participation

At this point in the meeting members of the public who have registered their wish to speak regarding an item on the agenda or an issue within the Committee's remit can do so. The deadline for registering is **5:00 pm on Friday 10th February 2012**.

5. Forward Plan (Pages 11 - 18)

This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to December 2012.

6. Audit Commission 2010/11 Grant Claim Certification Work. (Pages 19 - 34)

The purpose of this report is to allow consideration of the Certificate of Claims and Returns Report 2010/11 produced by the Audit Commission (Annex A). The report reviews the Council's arrangements for the preparation and administration of grant claims within the Council, which has improved over the last few years.

7. Scrutiny of the Treasury Management Monitor 3 Report 2011/12 and Review of Prudential Indicators. (Pages 35 - 60)

This report and annexes provide Members with an update of treasury management activity for the first nine months of 2011/12.

8. Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17. (Pages 61 - 102)

This report aims to assist Audit & Governance members in the scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17 by providing keys areas and points to note.

9. Counter Fraud: Risk Assessment and Review of Policies. (Pages 103 - 142)

The purpose of this report is to inform Members about potential fraud risks that the council is exposed to, and proposed counter fraud activity to address those risks. The report also details the outcome of a review of the council's counter fraud policies.

10. Internal Audit Plan Consultation. (Pages 143 - 150)

The purpose of the report is to seek members' views on the priorities for internal audit for 2012/13, to inform the preparation of the annual audit plan.

11. Information Governance Strategy. (Pages 151 - 160)

The purpose of the report is to inform Members about the Information Governance Strategy developed by the council's Corporate Information Governance Group (CIGG) and proposed action to strengthen information governance arrangements.

12. Whistleblowing Policy Update. (Pages 161 - 172)

This report shares with Members the latest draft of a revised whistleblowing policy and procedures for the Council.

13. Changes to the Constitution. (Pages 173 - 180)

This report seeks Members' support to a number of changes to the Constitution.

14. Urgent Business

Any other business which the Chair considers urgent under the Local Government Act 1972.

Democracy Officer:

Name: Laura Bootland

Contact details:

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- E-mail – laura.bootland@york.gov.uk

For more information about any of the following please contact the Democracy Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details are set out above.

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- ensure that what you want to say speak relates to an item of business on the agenda or an issue which the committee has power to consider (speak to the Democracy Officer for advice on this);
- find out about the rules for public speaking from the Democracy Officer.

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Further information about what's being discussed at this meeting

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The majority of councillors are not appointed to the Cabinet (39 out of 47). Any 3 non-Cabinet councillors can 'call-in' an item of business from a published Cabinet (or Cabinet Member Decision Session) agenda. The Cabinet will still discuss the 'called in' business on the published date and will set out its views for consideration by a specially convened Scrutiny Management Committee (SMC). That SMC meeting will then make its recommendations to the next scheduled Cabinet meeting in the following week, where a final decision on the 'called-in' business will be made.

Scrutiny Committees

The purpose of all scrutiny and ad-hoc scrutiny committees appointed by the Council is to:

- Monitor the performance and effectiveness of services;
- Review existing policies and assist in the development of new ones, as necessary; and
- Monitor best value continuous service improvement plans

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City of York Council

Committee Minutes

MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	5 DECEMBER 2011
PRESENT	COUNCILLORS JEFFRIES (CHAIR), BARNES, BROOKS (VICE-CHAIR), BURTON, CUTHBERTSON, STEWARD AND WATSON

31. DECLARATIONS OF INTEREST

At this point in the meeting, Members were asked to declare any personal or prejudicial interests they might have in the business on the agenda. No interests were declared.

32. MINUTES

RESOLVED: That the minutes of the last meeting of the Audit and Governance Committee held on 29 September 2011 be approved and signed by the Chair.

33. PUBLIC PARTICIPATION

It was reported that there had been no registrations to speak at the meeting under the Council's Public Participation Scheme.

34. FORWARD PLAN.

Consideration was given to the future plan of reports expected to be presented to the Committee during the forthcoming year to September 2012.

Officers confirmed that a number of changes had been made since its presentation in September to reflect the planned work of the Council's External Auditors over the next 12 months.

Following the Audit and Governance training for members on 14 November, it was reported that the under mentioned issues required adding to the plan:

- Review of Audit and Governance Committee's Terms of Reference
- Update to Whistle blowing Policy – February 2012

RESOLVED: That the Committee's Forward Plan for the period up to September 2012 be received and noted subject to the addition of the above mentioned reports.

REASON: To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.

35. KEY CORPORATE RISK MONITOR QUARTER 3.

Members considered a report which presented them with an overview of the risks associated with the councils Key Corporate Risks (KCRs) as at November 2011.

It was reported that the monitor also now provided directorates the opportunity to present an overview of their own High and Critical risks. This was being delivered on a rolling programme with risk registers at monitor three being presented by City Strategy and Communities and Neighbourhoods, with their overviews being included at Annexes A and B of the report.

There had been no change in the number of critical KCRs since monitor 2 for 2011/12. Comments in respect of the following three critical risks corporately were detailed at paragraph 5 of the report:

- Capital Programme – Access York Phase 1
- Safeguarding
- Financial Pressures – Reduction in Revenue Budget

The remaining 14 high key corporate risks reported to the Committee in September 2011 were again reported at paragraph 6.

Officers confirmed the success of their bid for funding for the Access York Phase 1 scheme for the Park and Ride site.

Officers from City Strategy and Communities and Neighbourhoods presented their reports at Annexes A and B respectively.

Members commented on a number of aspects of the reports including:

- Concern that the council did not hold deeds for some of its assets.
- Delays in move to West Offices and any resultant rent/fees incurred.
- Other risks incurred in respect of the Community Stadium e.g. raising of communities expectations. Need to widen impact.
- Personal emergency plans, particularly egress issues in current council buildings and staff training/awareness for Fire Marshalls. Officers confirmed that they would investigate the issues raised and report back to the Chair.^{1.}
- Need for the authority to engage with the voluntary sector to ensure that they have adequate notice of any changes in funding to try and alleviate employment issues.
- Confirmation that there was ongoing dialog with GP Commissioners.

Following further discussion it was

- RESOLVED:
- i) That the key corporate risks as set out at paragraphs 5 and 6 of the report be received and noted.
 - ii) That the directorate risks for City Strategy and Communities and Neighbourhoods as set out at Annexes A and B of the report be received and noted.

- REASON:
- i) To provide assurance that risks to the council are continuously reviewed and updated.
 - ii) To provide assurances that risks to the council are continuously reviewed and managed at directorate level.

Action Required

1.Report back to Chair following investigation of issues raised.

MS

36. ANNUAL AUDIT LETTER.

Members received a report which introduced the Annual Audit Letter for 2010/11 prepared by the Audit Commission together with the council's response.

The letter had been included in full at Annex A of the report and provided the District Auditor's independent opinion of the Council's arrangements based on an annual programme of work which was required to meet standards set out in the Code of Audit Practice. Comments had also been provided on the current and future challenges facing the Council.

Details of the strengths and improvements identified by the Commission and the areas which required review were outlined at paragraph 5 of the report.

Representatives of the Audit Commission went through the letter in detail and members raised a number of issues including:

- Training requirements relating to HRA funding and Treasury Management.
- Quality assurance.
- Alternate methods of delivery of some services was required.
- Need to be selective in the authorities to which we were compared to, as referred to at page 49, paragraph 2.
- Further information on audit fee.

Officers confirmed that the Audit letter was a key milestone for the authority, details of which had been circulated to all members and officers. The letter would also be considered by Cabinet at their meeting on 10 January 2012 .

The Chair thanked the representatives of the Commission for their work on the report and attendance at the meeting.

RESOLVED: That the Annual Audit Letter 2010/11 as set out at Annex A be received and noted.

REASON: To comply with the statutory requirements for the external audit of the council.

37. REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT 2011/12.

Consideration was given to a report which requested members to agree the arrangements for the 2011/12 review of the effectiveness of internal audit.

The 2010/11 annual review had been jointly undertaken with the North Yorkshire County Council by the Shared Service Contract Board (SSCB), in consultation with the respective Audit Commission chairs. It was confirmed that the role of audit committees may change in the future as a result of the government's proposals for the future of public audit and the expectation that local authorities would be given responsibility for the appointment of their own external auditors. However, in the meantime and to ensure consistency and avoid duplication of work it was proposed that the SSCB should again undertake this work.

Officers confirmed that the review would also include the effectiveness of the Audit and Governance Committee.

Following discussion it was

RESOLVED: That the proposed review arrangements for internal audit for 2011/12 be endorsed.

REASON: To enable members to consider the adequacy and effectiveness of the council's control environment.

38. INTERNAL AUDIT AND FRAUD PLAN PROGRESS REPORT.

Members considered a report which updated them on progress made in delivering the internal audit work plan for 2011/12 and on current counter fraud and information governance activity.

Details of progress to date on the 2011/12 internal audit plan was reported at paragraphs 4 to 6, freedom of information requests and breaches of financial regulations at paragraphs 9 and 10 of the report and details of counter fraud investigations at Annex 2.

Further information in respect of the final proposals for the integration of the North Yorkshire Audit Partnership with Veritau

Limited were set out at paragraphs 11 to 33 of the report. The outline dates necessary to establish Veritau North Yorkshire were timetabled at paragraph 34 with the transfer of the internal audit and counter fraud services scheduled for 1 April 2012.

Members questioned further details of the fraud detection and investigation cases, in particular blue badge fraud and benefits fraud. The significant increase in the value of fraudulent benefit overpayments identified was raised by members. A request was made for future reports to include details of the number of cases involved in the reported fraudulent benefit figures.¹

Following further discussion it was

RESOLVED: i) That the Committee note the progress made in delivering the 2011/12 internal audit work programme, and current counter fraud and information governance activity.

ii) That the proposals to establish Veritau North Yorkshire to undertake work transferred from the North Yorkshire Audit Partnership be noted.

REASON: i) To enable members to consider the implications of audit and fraud findings.

ii) As part of the committee's responsibility to consider reports dealing with the management of internal audit.

Action Required

1. Future reports to include number of benefit overpayment cases.

KB

39. SCRUTINY OF THE TREASURY MANAGEMENT MONITOR 2 REPORT 2011/12 AND REVIEW OF PRUDENTIAL INDICATORS.

Consideration was given to the Treasury Management Monitor 2 Mid Year Review and Prudential Indicators for 2011/12 as attached at Appendix A of the report.

The report reviewed the economic market conditions in which the treasury management activities of the council currently operated. The highlights detailed were:

- Bank base rate would remain low for the foreseeable future.
- Investment rates would remain low with the investment of surplus funds being limited due to the uncertainty surrounding the euro zone and the impact on world markets.
- Borrowing rates were continually monitored with there being some good opportunities to take loans at favourable rates.
- Further information on the proposed reform of the Housing Revenue Account subsidy arrangements.

In reply to members questions on the present returns on investments, officers confirmed that their main priority was security of the Councils funds.

RESOLVED: That the Committee note the Treasury Management Monitor 2 and Prudential Indicators 2011/12 as set out at Appendix A of the report.

REASON: So that those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

40. CHAIRS COMMENTS

The Chair, members and officers expressed their thanks to Helen Malam, Systems Accountant, for her work with the Audit and Governance Committee prior to her taking maternity leave.

CLLR L JEFFRIES, Chair
[The meeting started at 5.30 pm and finished at 7.00 pm].

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Audit and Governance Committee

13 February 2012

Report of the Assistant Director of CBSS (Financial Services)

Audit & Governance Committee Forward Plan to December 2012**Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to December 2012.

Background

2. There are to be six fixed meetings of the Committee in a municipal year. To assist members in their work, attached as an Annex is the indicative rolling Forward Plan for meetings to December 2012. This may be subject to change depending on key internal control and governance developments at the time. A rolling Forward Plan of the Committee will be reported at every meeting reflecting any known changes.
3. Several amendments have been made to the forward plan since the previous version was presented to this Committee in December 2011. These include rescheduling the review of Audit and Governance Committee Terms of Reference from the February meeting to the meeting in April 2012, the addition of an Information Governance Strategy report, and combining two separate Internal Audit reports into one Agenda item under 'Update of Counter Fraud Policies'.

Consultation

4. The Forward Plan is subject to discussion by members at each meeting, has been discussed with the Chair of the Committee and key corporate officers.

Options

5. Not relevant for the purpose of the report.

Analysis

6. Not relevant for the purpose of the report.

Council Plan 2011-15

7. This report is not relevant to the 5 priorities set out in the Council Plan.

Implications

- 8.
- (a)**Financial** - There are no implications
 - (b)**Human Resources (HR)** - There are no implications
 - (c)**Equalities** - There are no implications
 - (d)**Legal** - There are no implications
 - (e)**Crime and Disorder** - There are no implications
 - (f) **Information Technology (IT)** - There are no implications
 - (g)**Property** - There are no implications

Risk Management

9. By not complying with the requirements of this report, the council will fail to have in place adequate scrutiny of its internal control environment and governance arrangements, and it will also fail to properly comply with legislative and best practice requirements.

Recommendations

- 10.
- (a) The Committee's Forward Plan for the period up to December 2012 be noted.

Reason

To ensure the Committee receives regular reports in accordance with the functions of an effective audit committee.

- (b) Members identify any further items they wish to add to the Forward Plan.

Reason

To ensure the Committee can seek assurances on any aspect of the council's internal control environment in accordance with its roles and responsibilities.

Contact Details

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**Report
Approved**



Date 01/02/2012

Specialist Implications Officers

Head of Civic, Democratic & Legal Services

Wards Affected: Not applicable

All ☐

For further information please contact the author of the report

Background Papers:

None

Annex

Audit & Governance Committee Forward Plan to December 2012

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Audit & Governance Committee Draft Forward Plan to December 2012

Training/briefing events will be held at appropriate points in the year to support members in their role on the Committee.

- **Committee 2 April 2012**

External Audit Fee Update

Approval of Internal Audit Plan

Internal Audit & Fraud Plan Progress Report

Follow up of Internal and External Audit Recommendations

Review of the Effectiveness of the Audit & Governance Committee

Review of Audit & Governance Committee Terms of reference

Key Corporate Risk Monitor Quarter 4 (including ACE risks)

Audit Commission national reports summary (if any)

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any)

- **Committee June 2012 (Date TBC)**

External Audit 2011/12 Audit Progress Report

Review of the Effectiveness of Internal Audit

Annual Report of the Head of Internal Audit

Draft Annual Governance Statement 2011/12

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any)

- **Committee July 2012 (Date TBC)**

External Audit 2012/13 Audit Plan

Draft Statement of Accounts 2011/12

Scrutiny of the Treasury Management Annual Report 2011/12 and
Review of Prudential Indicators

Key Corporate Risk Monitor Quarter 1

Audit Commission national reports summary (if any)

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any)

- **Committee September 2012 (Date TBC)**

2011/12 Final Statement of Accounts

Annual Governance Report 2011/12

Annual Report of the Audit & Governance Committee

Key Corporate Risk Monitor Quarter 2

Follow-up of Internal and External Audit Recommendations

Internal Audit & Fraud Plan Progress Report

Audit Commission reports as per agreed Audit & Inspection plan
Changes to the Constitution (if any)

- **Committee December 2012 (Date TBC)**

Key Corporate Risk Monitor Quarter 3

Annual Audit Letter – Audit Commission

2012/13 Review of the Effectiveness of Internal Audit

Internal Audit & Fraud Plan Progress Report

Scrutiny of the Treasury Management Monitor 2 Report 2012/13
and Review of Prudential Indicators

Audit Commission reports as per agreed Audit & Inspection plan

Changes to the Constitution (if any)

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Audit and Governance Committee

13 February 2012

Report of the Cabinet Member for Corporate Services

Certification of Claims and Returns 2010/11 – Audit Commission**Summary**

1. The purpose of this report is to allow consideration of the Certificate of Claims and Returns Report 2010/11 produced by the Audit Commission (Annex A). The report reviews the Council's arrangements for the preparation and administration of grant claims within the Council, which has improved over the last few years.

Background

2. The report identifies that the Audit Commission was responsible for certifying 9 claims and returns to the value of £197.1m in 2010/11 (compared to 11 claims and £142.1m in 2009/10). This certification work is charged on an hourly basis to the Council; this totalled £46,785 in 2010/11 (£49,462 in 2009/10 and £54,806 in 2008/09).
3. The reduction in the audit commission's fee has occurred due to fewer claims to audit but also improved working papers from Council employees, a reduction in the number of amendments on individual claims and timely submission allowing the Audit Commission to plan and certify claims by the required deadlines.
4. The results of the Audit Commission's certification work showed that four out of the nine claims audited required amendment. However these amendments were minor resulting in only 1 qualification letter. The qualification letter identified some calculation errors of benefit, where the value of amendments was in respect of 'roundings' and not significant.
5. The overall conclusion from the Audit Commission's findings was that the Council has progressed and implemented previous recommendations on its grant claim arrangements:

- a) The control environment for grant claims and returns has improved resulting in lower audit testing of the sure start claim resulting in a lower fee; and
 - b) Issues identified in the qualification letters in 2009/10 in respect of Council's non-domestic rates was noted by the Council resulting in no qualification in 2010/11
7. As a result of the discussions with the audit commission from this review the Council continues to maintain high level of working papers and focuses on producing audit certification of claims or returns with no requirements for amendment or qualifications in future.

Consultation

8. Officers have contributed to this report where appropriate.

Options

9. Not relevant for the purpose of the report.

Analysis

10. Not relevant for the purpose of the report.

Council Plan

11. This report contributes to the overall aims and priorities by helping to ensure probity, integrity and honesty in everything it does. It specifically contributes to the Council's core capabilities.

Implications

12. There are no financial implications other than those outlined in the report. There are no HR, equalities, legal, crime and disorder, IT or property implications arising from this report.

Risk Management

13. Failure to provide adequate arrangements for the administration and preparation of grant claims result in both financial and reputation risks to the Council.

Recommendations

14. Members are asked to:

- (a) consider the content of the Certification of Claims and Returns Annual report 2010/11;

Reason

To enable members to consider the effectiveness of the council's grant administration activity.

- (b) note the Audit Commissions Certification of Claims and Returns report at Annex A.

Reason

To enable Members to comment on the current arrangements.

Contact Details

Author:

Cabinet Member for Corporate Services:

Cllr Julie Gunnell

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**Report
Approved**



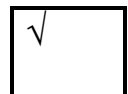
Date 15/02/2011

Specialist Implications Officers

Not applicable

Wards Affected:

**AI
I**



For further information please contact the author of the report

Background Papers:

Audit and Governance Committee 14 February 2011: Grant Claim
Certification Report 2019/10 – Audit Commission

Annex

*Certification of Claims and Returns Annual Report 2010/11 – Audit
Commission*

Certification of claims and returns - annual report

City of York Council

Audit 2010/11

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Introduction

Local authorities claim large sums of public money through grants and subsidies. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

This report summarises the outcomes of my certification work on City of York Council's 2010/11 claims and returns.

Summary of my 2010/11 certification work

My work gave rise to a qualification letter for only one out of the nine audited claims and returns in 2010/11. Four out of the nine claims or returns required amendment.

Table 1: Summary of 2010/11 certification work

Number of claims and returns certified	
Total value of claims and returns certified	£197.6 million
Number of claims and returns amended due to errors	4
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	1
Total cost of certification work	£46,785

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights significant issues arising. The Council has implemented all recommendations made in prior years and I have made no new recommendations for improvement.

Table 2: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made (£ 000)	Was a qualification letter issued?
Housing and council tax benefit scheme	51,656	N/A, not applied to this claim	1 - roundings	Yes – audit testing identified some errors in calculation of benefit which were not amended because of the inherent difficulty of calculating an accurate adjustment when only a sample of cases have been subject to review

Claim or return	Value of claim or return presented for certification (£'000)	Was reliance placed on the control environment?	Value of any amendments made (£ 000)	Was a qualification letter issued?
HRA subsidy	6,175	No – changes in the Council's approach to completing the capital financing section of the claim form meant that additional testing was required.	Amendments to the Adjustment A and capital financing requirement calculations were made but these had no impact on the overall level of subsidy.	No
Housing finance base data return	N/A, non financial data return only	No – changes to subsidy regime for 2011/12 meant that additional testing was necessary	Minor amendments made to mortgages and capital contributions data.	No
Pooling of housing capital receipts	1,041	Yes	Nil	No
National non-domestic rates return	80,577	No – the claim was qualified in 2009/10	Nil	No
Teachers' pensions return	50,522	Yes	1,232 – arithmetical errors in claim form	No
Sure start, early years and childcare grant and aiming high for disabled children grant	6,985	Yes	Nil	No

Table 3: Claims and returns between £125,000 and £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Value of any amendments made	Qualification letter
Disabled facilities	442	Nil	No
Yorkshire Forward	211	Nil	No

Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

Table 4: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
The Council will consider what action can be taken to improve the control environment for grant claims and returns.	Medium	Ongoing	All Finance Managers	Implemented	Improvements to control environment for Sure Start claims meant that we were able to reduce the amount of audit testing and therefore also the fee.
Issues identified in prior years' qualification letters and amendments should be reviewed and considered when preparing the current year's claim to ensure they do not re-occur.	Medium	Ongoing	All Finance Managers	Implemented	No qualification letter in respect of the Council's national non domestic rates return in 2010/11.

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 5: Summary of certification fees 2010/11

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
Housing and council tax benefit scheme	£28,350	£26,956	N/a – increase less than 10 per cent
Pooling of housing capital receipts	£730	£858	Difference not significant
HRA subsidy	£3,654	£3,083	Changes to capital financing section of the claim were made by the Council and required a technical specialist review.
Housing finance base data return	£5,327	£3,210	Additional testing required in preparation for new housing subsidy regime in 2011/12.
National non-domestic rates return	£4,010	£3,630	Significant variances in part B of the claim form compared to the previous year required additional testing.
Teachers' pensions return	£1,325	£603	Arithmetical errors in the claim required correction
Sure start, early years and childcare grant	£1,249	£4,505	Improved control environment so less testing required
Yorkshire Forward	£1,240	£5,250	4 claims audited in 2009/10, only 1 in 2010/11.
Disabled facilities	£433	£517	Difference not significant

Claim or return	2010/11 fee	2009/10 fee	Reasons for changes in fee greater than +/- 10 per cent
General management, supervision and review	£467	£1,020	Less claims to audit and fewer qualification issues to deal with.
Total	£46,785	£49,632	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



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January 2012

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13 February 2012

Audit & Governance

Report of the Cabinet Member for Corporate Services

Scrutiny of Treasury Management Monitor 3 and Prudential Indicators 2011/12

Summary

1. The Audit & Governance Committee are responsible for ensuring effective scrutiny of the treasury management strategy and policies. The revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance (“the Code”) stipulates that
 - There needs to be, at a minimum, a mid year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved,
 - Those charged with governance are also personally responsible for ensuring they have the necessary skills and training
2. Attached at Appendix A is the Treasury Management Monitor 3 and Prudential Indicators 2011/12 report. This information provides Members with an update of treasury management activity for the first nine months of 2011/12.

Background

3. The report reviews the economic market conditions in which the treasury management activities of the council are currently operating. It highlights that the bank base rate will remain low for the foreseeable future with quarter 3 of 2013 being estimated as the first time the base rate will rise.
4. Investment rates remain low and the counterparty list, where the council's surplus funds can be invested, is limited due to the uncertainty surrounding the euro zone and the impact on world market. This ensures the security of the Councils capital, with the secondary priority being on interest rate return estimated at 1.22% for 2011/12.

5. Borrowing rates are continually being monitored due to the current volatility in the market creating some good opportunities to take loans at favourable rates. The target borrowing rate in 2011/12 is currently 4.3% and loans taken this year are below the target.
6. The information provided in the paragraphs above is a brief summary of the "Treasury Management Monitor 3 and Prudential Indicators 2011/12" report for scrutiny by Audit & Governance Committee Members.

Consultation

7. Not applicable

Options

8. It is a statutory requirement under Local Government Act 2003 for the council to operate in accordance with the CIPFA prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice "the Code". The Council also approved the terms of reference in the Constitution to include that Audit & Governance Committee scrutinise the Treasury Management Strategy and Monitoring reports. No alternative options are available.

Council Plan

9. Treasury management is an integral part of the council's finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council's key priority areas as set out in the council plan. It therefore underpins all of the council's aims.

Implications

10. The implications are
 - Financial – the security of the Councils capital funds is a priority, maximising returns on investments is still key along with minimising the finance costs of debt.
 - Human Resources - there are no human resource implications to this report.
 - Equalities - there are no equality implications to this report.
 - Legal - there are no legal implications to this report.
 - Crime and Disorder - there are no crime and disorder implications to this report.

- Information Technology - there are no information technology implications to this report.
- Property –there are no property implications to this report.
- Other - the revised code may have implications for the requirements placed on officers and members for the scrutiny and management of the treasury function.

Risk Management

11. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice 2011 (the code) are all adhered to as required.

Recommendations

12. That Audit & Governance Committee note the Treasury Management Monitor 3 and Prudential Indicators 2011/12 report at Appendix A.

Reason: That those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

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Report approved ☒ Date 14/02/12

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All** ☒

For further information please contact the author of this report
Background Working Papers

Local Government Act 2003 and amendments

CIPFA Prudential Code

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code")

Treasury Management Strategy Statement and Prudential Indicators for 2011/12 to 2015/16

Annexes

1. Appendix A - Treasury Management Monitor 3 and Prudential Indicators 2011/12
2. Annex A – prudential Indicators 2011/12

Cabinet

Report of the Cabinet Member for Corporate Services

Treasury Management Monitor 3 and Prudential Indicators 2011/12

Summary

1. This Council is required through regulations issued under the Local Government Act 2003 and the revised 2009 (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management (as revised) to provide members with an update on treasury management activities at least twice a year.
2. This report therefore ensures this council is implementing best practice in accordance with the Code. It updates on the Treasury Management activities for the period 1 April 2011 to 31 December 2011 and reviews:
 - Economic Background
 - Annual Investment Strategy
 - Investment portfolio
 - Borrowing portfolio
 - Compliance with Prudential Indicators

Background

3. The Council's Treasury Management function is responsible for the effective management of the Council's investments, cash flows, its banking, money market and capital transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

Economic Background and Analysis

4. The Council's treasury management activities have operated within the following economic background:

- a) Indicators suggest that the economy is at higher risk of a recession;
 - b) Weak demand on the high street has forced retailers to offer generous discounts; reflecting the pressures on households' finances;
 - c) The labour market has deteriorated, but at a slower pace than in previous months; employment surveys have continued to point to further job losses ahead;
 - d) Public borrowing has fallen in line with the fiscal plans, but forecasts for future deficits have been revised up;
 - e) Inflation begins to fall from its recent peak of 5.2% in September to 4.8% in November; the November Inflation Report forecast projected CPI inflation to be well below the 2% target in two years' time;
 - f) The Monetary Policy Committee (MPC) restarted quantitative easing (QE) and indicated its intention to sanction more;
 - g) Gilt yields reached new lows, in spite of a recovery in equity prices and growing fiscal fears;
 - h) Euro-zone policymakers failed to make progress towards a solution to the region's debt crisis.
5. There continues to be uncertainty in the current economic climate and Sector – the Council's treasury management advisers – have undertaken a review of their interest rate forecast as a result of this economic background and the following two major events:
- a) the decision by the MPC to expand quantitative easing by a further £75bn is to be completed in February 2012. This clearly underlines how concerned the MPC is about the prospects for UK growth and that recession is now a much greater concern than inflation. This decision had the immediate result of depressing gilt yields at the long end of the interest rate gilt yield curve, effecting Sector's interest rate forecasts.
 - b) The marked deterioration of growth prospects in the US, EU and UK, (especially as concerns have further increased over Greece) and the potential fall out from their debt situation. This has led in turn to a further increase in safe haven flows into UK gilts since Sector's

last interest rate forecast (16.8.11) which have depressed gilt yields and pushed PWLB rates to even lower levels.

6. From the economic uncertainty described above, the Sector central interest rate forecast is for the bank base rate to rise in 2 years time in September 2013. The current environment of exceptional levels of volatility which are highly correlated to political developments (or lack of them) in the Eurozone sovereign debt crisis, highlights how unpredictable PWLB rates and bond yields remain.
7. Figure 1 below shows the actual and projection of the bank base rate, which has remained at historically low levels since April 2009. Sector forecast bank base rate in January 2011 is compared to their revised forecast in January 2012. Other economists latest forecast are also shown for January 2012. The graph highlights the delay in the expectation of the increase in the Bank Base rate which is as a result of the decision to expand quantitative easing and deterioration of growth prospects.

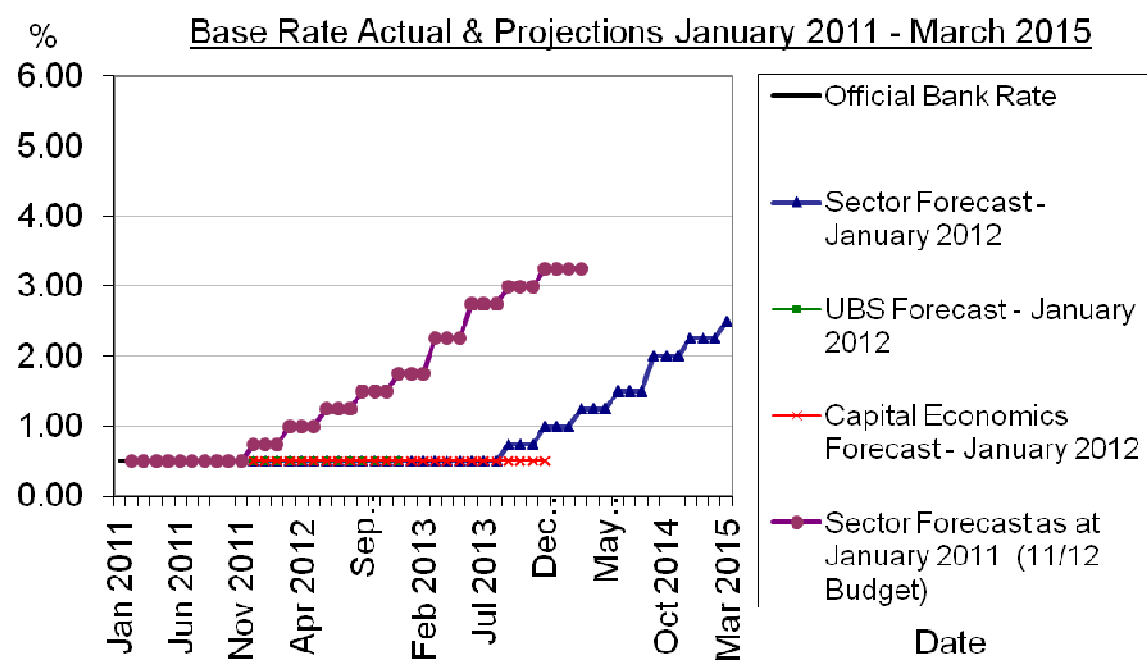


Figure 1: Base Rate 2011 to 2015 - latest forecast January 2012

Annual Investment Strategy

8. Treasury Management Strategy Statement for 2011/12 was approved by Council on 24 February 2011. The Council's

Annual Investment Strategy, which is incorporated in the Strategy, outlines the Council's investment priorities as follows:

- security of capital
- liquidity
- yield

The Council will aim to achieve the optimum return (yield) on investments commensurate with the proper levels of security and liquidity.

9. Investments are placed with highly credit rated financial institutions using the creditworthiness matrices described in the Treasury Management Strategy, which includes sovereign credit ratings from the rating agencies and the credit default swap (CDS) overlay information provided by Sector.
10. The current economic climate with the continuing Euro zone sovereign debt crisis and its potential impact on banks prompts a low risk and short term strategy. It is considered appropriate to keep investments short with a maximum duration of 3 months. This applies to all entities in which the Council is considering investing, except for the following institutions:
 - (a) UK Government and related entities such as Local Authorities – suggested limit remains at 5 years.
 - (b) UK semi-nationalised institutions e.g. Lloyds / RBS – suggested limit remains at 1 year. UK ownership provides considerable conform to investors.
 - (c) Money market Funds – suggested limit remains at 1 year.
11. Investments held during the first nine months of 2011/12, in accordance with Sector's Creditworthiness matrices and changes to Fitch and Moody's credit ratings, remained within the Council's approved credit criteria limits contained in the Annual Investment Strategy.

Investment Portfolio

12. Investment rates available in the market have continued at historical low levels. The average level of funds available for investment purposes in the nine months of 2011/12 was £58.085m. The level of funds available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants, borrowing and progress on the

Capital Programme. These funds are therefore available on a temporary basis dependant on cash flow movement.

13. There are no funds currently invested for periods of a year or more due to the limited institutions available for investment in the current market environment; in accordance with the credit criteria policy.
14. Investment activity during the first nine months of 2011/12 earned a rate of return of 1.22%. This is 0.74% better than the average 7 day London Inter-Bank Deposit rate (LIBID) of 0.48% and 0.72% higher than the average base rate for the period of 0.50%. The interest earned to date in 2011/12 is in line with the treasury management budget.
15. The higher rate of return on investment activity compared to the average LIBID rate and base rate for the period is due to the treasury team continuing to monitor the market and taking advantage of opportunities when they become available, whilst ensuring the security of the council's funds. Investments in the portfolio are diversified and include deposits in short term call accounts, fixed term investments and money market funds.
16. Figure 2 shows the interest rates available on the market between 7 days and 1 year and also the rate of return that the Council has achieved for the first nine months of 2011/12. It shows that favourable / competitive interest rates have been obtained for investments whilst ensuring the required liquidity and security of funds for the Council.

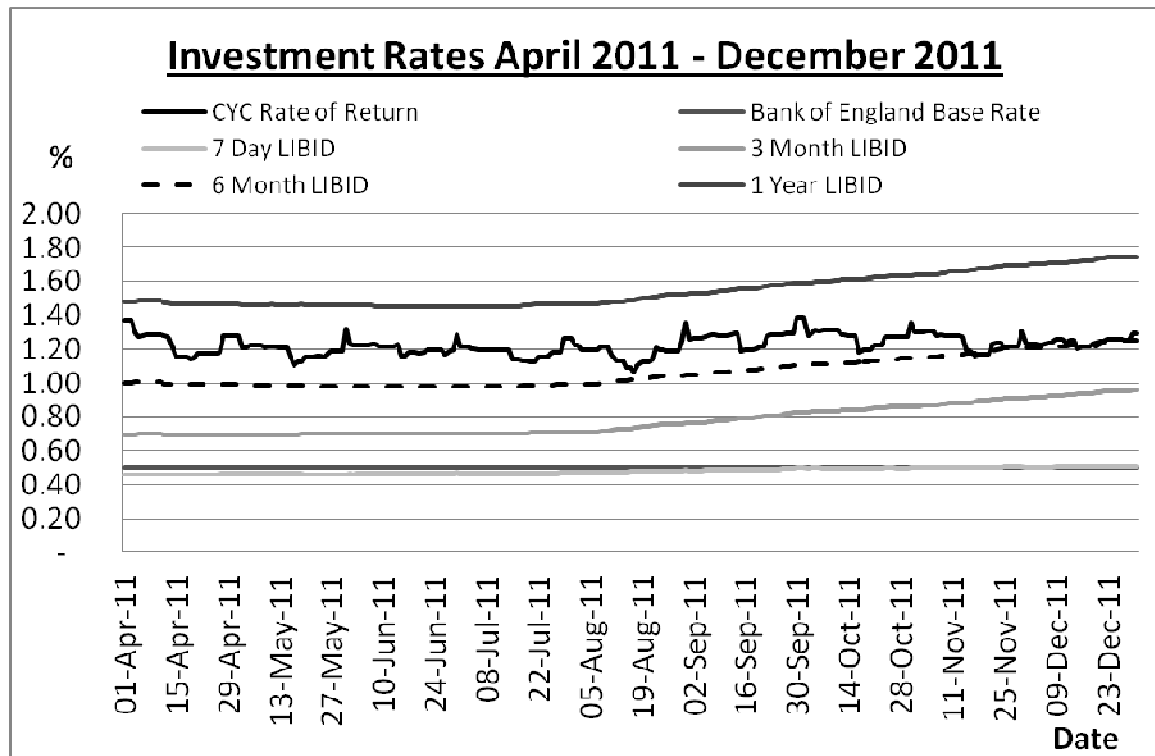


Figure 2 CYC Investments vs Money Market Rates

Borrowing Portfolio

17. The Council undertakes long term borrowing in accordance with the investment requirements of the capital programme and all borrowing is therefore secured against its asset base.
18. The level of borrowing taken by the Council is determined by the Capital Finance Requirement (the Councils underlying need to borrow for capital expenditure purposes). Borrowing needs to be affordable, sustainable and prudent and the treasury management budget supports the borrowing finance costs in the longer term.
19. Under regulation, the Council can borrow in advance of need in line with its future borrowing requirements in accordance with the Capital Financing Requirement. The Administrative Accommodation project increases the Council's need to borrow in 2011/12 and 201/13 and therefore the markets will continue to be closely monitored to ensure that advantage is taken of favourable rates in 2011/12 and the increased borrowing requirement is not as dependant on interest rates in any one year.

20. On the reverse side, the Council's level of borrowing can also be below the Capital Financing Requirement. This would mean that instead of increasing the Council's level of borrowing, surplus funds held for investment purposes would be utilised instead, decreasing the level of surplus funds being available for investment. In the current interest rate environment where investment rates are below borrowing rates consideration is given to the value of taking borrowing or whether it is better for the council to keep investment balances lower.
21. Sector – the Council's treasury management advisers - forecast that overall future PWLB rates will rise, although there is still expected to be volatility in the market over the coming months. At this Treasury Management Monitor 3 report the target level for loans for the remainder of 2011/12 is 4.3% - which is at the lower end of Sector's target range. Sector's 25 year PWLB target rate for new long term borrowing for the quarter started at 5.00% and ended at 4.20%.
22. As shown in Table 1 below, all Government Public Works Loan Board (PWLB) borrowing interest rates have generally been on a downward trend during the third quarter of 2011/12. The low points during the quarter were seen towards the end of December. The high points were seen in October.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.19%	1.96%	3.01%	3.96%	3.98%
Date	29/12/11	30/12/11	30/12/11	30/11/11	30/11/11
High	1.54%	2.56%	3.71%	4.52%	4.64%
Date	07/10/11	17/10/11	28/10/11	28/10/11	12/10/11
Average	1.39%	2.25%	3.33%	4.22%	4.28%

Table 1 – PWLB Borrowing Rates - quarter ended 31.12.2011

23. The Council's long-term borrowing started the year at a level of £133.1m. A £5m loan was repaid in May 2011 in line with its maturity date. New borrowing of £7m was taken in August 2011 and £5m in November 2011. Table 2 details the borrowing taken during 2011/12:

<u>Loan Type</u>	<u>Date Raised</u>	<u>Date Matured</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Duration</u>
Matured	28/05/2010	27/05/2011	5,000,000	0.700%	1.00
			5,000,000		
Raised	11/08/2011	10/08/2021	2,000,000	3.810%	10.00
Raised	11/08/2011	10/08/2016	5,000,000	2.500%	5.00
Raised	07/11/2011	07/11/2020	5,000,000	3.140%	9.00
			12,000,000		
Matured/Raised loans net position 2011/12			7,000,000		
Opening loan balance 2011/12			133,064,956		
Closing loan balance (current)			140,064,956		

Table 2 – Borrowing during 2011/12

24. The loans taken in 2011/12 are below the original target of 5% set in the Council approved 2011/12 strategy and also below the revised target rate of 4.3%. The £5m 10 year loan was at 3.81%, the £2m 5 year loan at 2.54% and the £5m 9 year loan at 3.14%.
25. It is anticipated that further borrowing will be undertaken during this financial year and rates continue to be monitored in this volatile opportunistic environment.
26. Figure 3 shows the fluctuation in PWLB rates since October 2010 when the Government's Comprehensive Spending Review increased rates to 1% above gilt yields. It indicates that all interest rates have generally been on a downward trend during the 2011/12, specifically low points were seen towards the end of December. The red triangles highlight when new borrowing in 2011/12 has taken place.

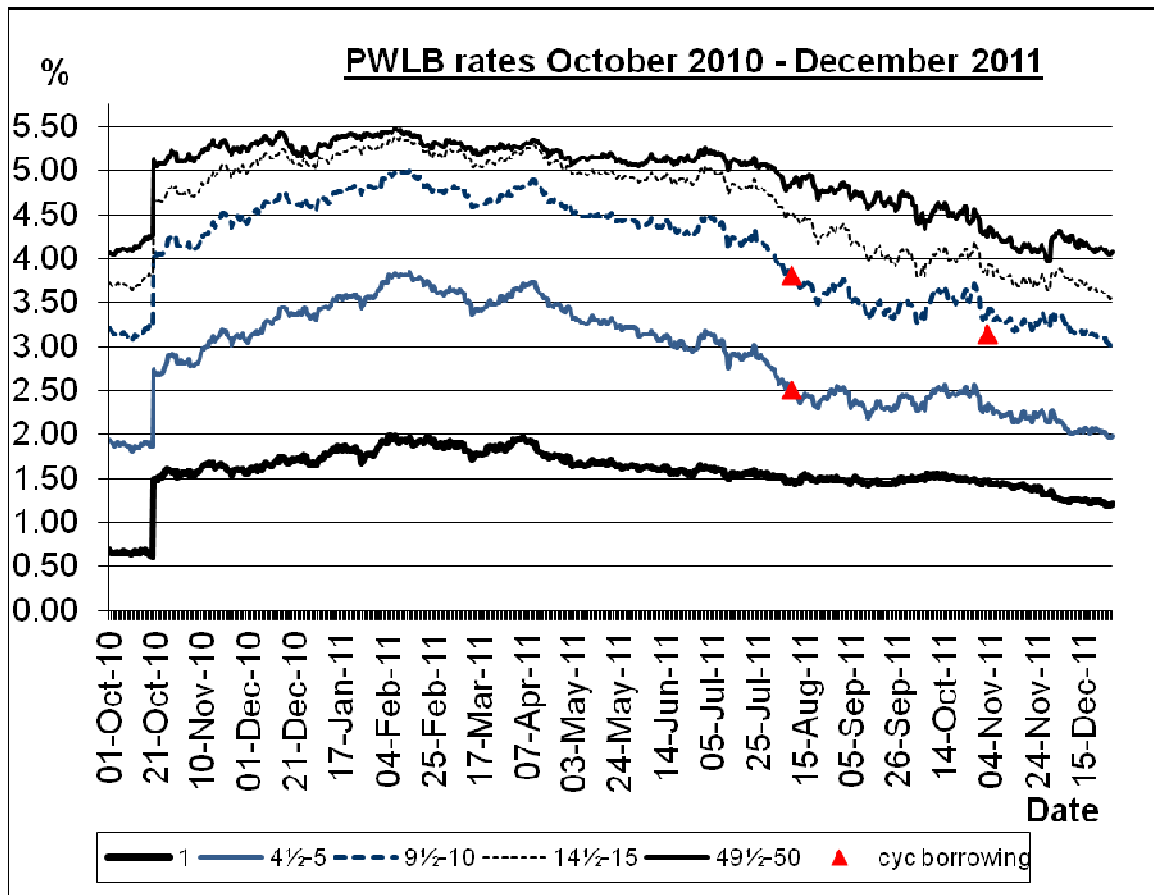


Figure 3 – PWLB rates vs CYC Borrowing Levels

27. Figure 4 illustrates the 2011/12 maturity profile of the Council's debt portfolio updated to reflect the borrowing this year to 31 December 2011. The maturity profile shows that there is no large concentration of loan maturity in any one year, thereby spreading the interest rate risk dependency.

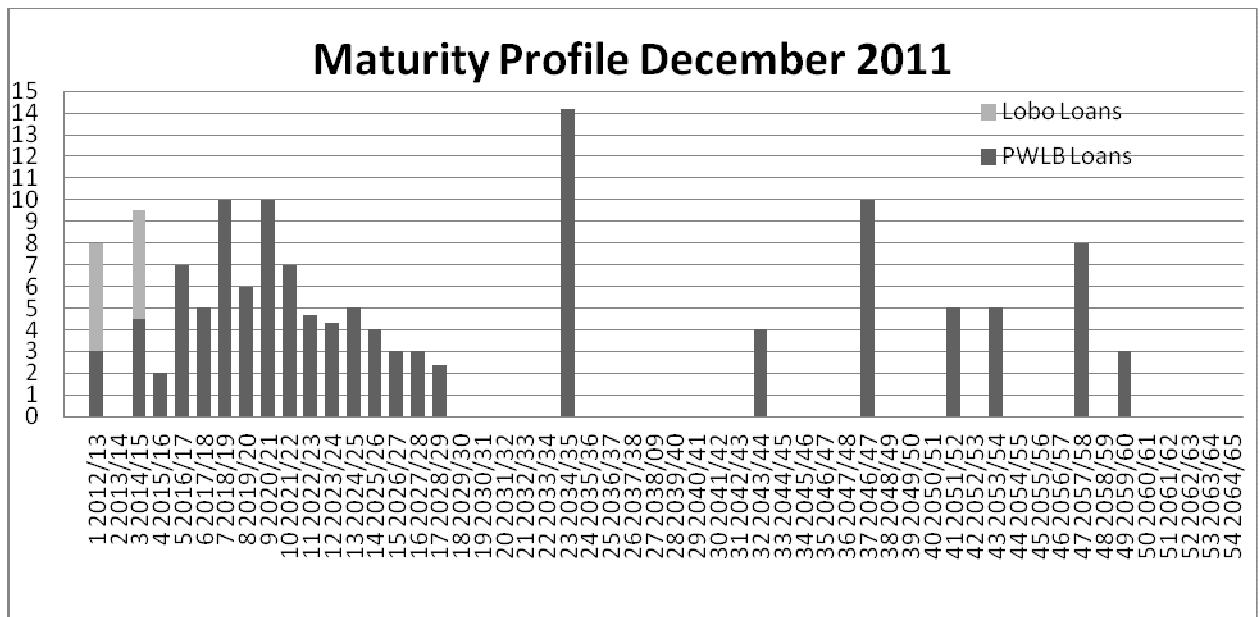


Figure 4 – Debt Maturity Profile 11/12

Compliance with Prudential Indicators

28. The Prudential Indicators for 2011/12, included in the Treasury Management Strategy Statement are based on the requirements of the Council's capital programme and approved at Council on 24 February 2011.
29. Revised Prudential Indicators for 2011/12 were approved by Council in December 2011 as recommended by Cabinet from the Treasury Management Monitor 2 Mid Year Review and Prudential Indicators 2011/12 Report. This revision occurred as a result of the HRA Self financing reform; further information is available in the Monitor 2 report.
30. It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits" included in the Prudential Indicators. The monitoring of the Prudential Indicators is attached at Annex A, along with the revised limits for the HRA reform.
31. During the financial year 2011/12 to date the Council has operated within the treasury limits and Prudential Indicators set out.

Consultation

32. The report shows the nine month position of the treasury management portfolio in 2011/12. The treasury management budget was set in light of the council's expenditure plans and the wider economic market conditions, based on advice from Sector - the Council's Treasury Management advisors.

Council Plan

33. The Council Plan has five priorities which all require a budget to achieve. The treasury management function aims to achieve the optimum return on investments commensurate with the proper levels of security, and endeavours to minimise the interest payable by the Council on its debt structure. It thereby contributes to all Council Plan priorities.

Human Resources Implications

34. There are no HR implications as a result of this report.

Equalities

35. There are no equalities implications as a result of this report.

Legal Implications

36. Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the *Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008* (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.

Crime and Disorder Implications

37. There are no crime and disorder implications as a result of this report.

Information Technology Implications

38. There are no IT implications as a result of this report.

Property Implications

39. There are no property implications as a result of this report.

Risk Management

40. The Treasury Management function is a high-risk area because of the level of large money transactions that take place. As a result of this there are procedures set out for day to day treasury management operations that aim to reduce the risk associated with high volume high value transactions. These are detailed in the Treasury Management Strategy Statement at the start of each financial year.

Recommendations

41. Members are required, in accordance with the Local Government Act 2003, to:

- Note the Treasury Management activities in 2011/12
- Note the movements in the Prudential Indicators at Annex A

Reason – to ensure the continued performance of the Council's Treasury Management function.

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Assistant Director of CBSS (Finance)

Report ☐ Date 14/02/12
Approved

Wards Affected:

All

Specialist Implication Officers:

None

For further information please contact the author of the report

Background Papers

Cash-flow Model 11/12, Investment Register 11/12, PWLB Debt Register, Capital Financing Requirement 11/12, Venture Fund 11/12, Treasury Management budget 11/12, Statistics 11/12.

Annexes

Annex A – Prudential Indicators 2011/12

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Annex A

PRUDENTIAL INDICATORS Monitor 3 2011/12 AND REVISED BUDGET HRA REFORM		2011/12 REVISED Budget	2011/12 Monitor 3
1) Capital Expenditure To allow the authority to plan for capital financing as a result of the capital programme. To enable the monitoring of capital budgets to ensure they remain within budget	Non - HRA	£M 61,4	£M 48.2
	HRA	122,7	131.8
	TOTAL	184,1	180.0
2) Ratio of financing costs to net revenue stream This indicator estimates the cost of borrowing in relation to the net cost of Council services to be met from government grant and council taxpayers. In the case of the HRA the net revenue stream is the income from Rents and Subsidy	Non - HRA	10.1%	7.7%
	HRA	2.1%	2.4%
3) Incremental impact of capital investment decisions - Council Tax Shows the actual impact of capital investment decisions on council tax. The impact on council tax is a fundamental indicator of affordability for the Council to consider when setting forward plans. The figure relates to how much of the increase in council tax is used in financing the capital programme and any related revenue implications that flow from it.		£ p	£ p
	Increase in Council Tax (band D) per annum	24.09	19.81
4) Incremental impact of capital investment decisions - Hsg Rents		£ p	£ p

	<p>of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.</p>	TOTAL	327	327
7)	<p>Adoption of the CIPFA Code of Practice for Treasury Management in Public Services</p>			
	<p>Ensuring Treasury Management Practices remain in line with the SORP.</p>	<p>TM Policy Statement 12 TM Practices Policy Placed Before Council Annual Review Undertaken</p>		
8a)	<p>Upper limit for fixed interest rate exposure</p>			
	<p>The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts</p>	<p>Net interest re fixed rate borrowing / investments Actual Net interest re fixed rate borrowing / investments</p>	110%	104%

8b)	Upper limit for variable rate exposure			
	The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts	Net interest re	-10%	-4%
		variable rate		
		borrowing /		
		investments		
		Actual Net interest		
		re variable rate		
		borrowing /		
		investments		
	9) Upper limit for total principal sums invested for over 364 days		£10 M	£10 M
	To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long term loans mature in different periods thus spreading the risk.			
	10) Maturity structure of new fixed rate borrowing during 2010/11		Upper Limit	Mon 3
	The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated	under 12 months	10%	0%
		12 months and		
		within 24 months	10%	2%

with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.	24 months and within 5 years	25%	5%
	5 years and within 10 years	40%	27%
	10 years and above	90%	66%

1. In accordance with the Prudential Code, the Prudential Indicators set by full Council on 24th February 2011 for the financial year 2011/12 must be monitored and reported through the financial year. The HRA reform and the requirement to borrow an additional £121.6m has changed key indicator. The Prudential Indicators are detailed above and some of the key points are explained below:
2. **Size of the Capital Programme (Indicator 1)** - The capital programme expenditure at monitor 3 is estimated at £180.0m the revised budget which includes and estimate for the HRA settlement payment budget was £184.1m. The Capital Programme Monitor 3 report provides further information with regards to the movements. The HRA Reform increase the HRA Capital Expenditure by £121.6m, therefore the total capital expenditure now stands at £180.0m
3. **Net revenue Stream (indicator 2)** - This indicator represents how much borrowing for the capital programme will cost as a percentage of the net revenue stream. The General Fund indicator at Monitor 3 is 7.7% compared to a budgeted level of 10.1%. The indicator has decreased as the capital expenditure of the Council has decreased and less borrowing is required. The Housing Revenue Account (HRA) indicator at monitor 3 is 2.4% compared to the budgeted level of 2.1%. There is little change even though there is to be a £121.6m settlement payment to the Government on 28 March 2012. For the year 2011/12 the HRA subsidy system remains in place and therefore there is no change to the Net Revenue Stream.

4. **Incremental Impact on the Level of Council Tax (Indicator 3)** – This indicator shows the impact of capital investment decision on the bottom line level of Council Tax. The Council funds its discretionary capital programme from two main sources, from borrowing or using capital receipts from the sale of surplus assets. The Council's policy is to use capital receipts to fund the Capital programme, however in the current economic environment with reduced capital receipts there is the requirement to use borrowing, which has an impact on Council Tax. The borrowing is not taken unless it is affordable, sustainable and prudent and can be supported by an existing budget. At monitor 3 the impact on council tax is estimated at £19.81 per Band D charge. This has decreased from the estimate of £24.09 due a lower level of borrowing being required to support the capital programme, which is in line with indicator 2.
5. **Incremental Impact on the Level of Housing Rents (Indicator 4)** – The estimate in the original 2011/12 strategy, monitor 2 and the revised HRA reform indicator are all zero. This is because even though the level of this indicator changes, the level of housing rent is not affected as housing rent is set in accordance with government formula.
6. **Capital Financing Requirement (CFR) (Indicator 5)** - The CFR at Monitor 3 is estimated at £291.1m, which is the Council's underlying need to borrow for all capital expenditure over time. The CFR will fluctuate as new schemes are introduced into the capital programme and the funding position changes (as a result of external contributions, reductions in grants, changes to capital receipts etc) to support the Capital investment of the Council.
7. The CFR under the HRA Reform has increased in line with the increased capital expenditure requirement of £121.6m. Therefore the revised CFR to incorporate the HRA reforms is £291.1m. It should be noted that the level of the HRA settlement has risen from that reported at monitor 2 from £112m to £121.6m. This decision is a change in the Department of Communities and Local Government calculation to take account of inflation. The CFR overall remains at the same level at £291.1m which confirms the CFR for the non-HRA element has fallen.
8. **Authorised Limit / Operational Boundary (Indicator 6)** – The Council debt position at 31 December 2011 stands at £140.1m. The Council's Operational Boundary (maximum prudent level of debt) was revised at Monitor 2 and approved at £327m, along with the Authorised Limit (maximum allowed debt) at £347m. This is as a result of the change in the borrowing required under the HRA reform. These limits remain as approved for 2011/12.

9. **Adoption of the CIPFA Code of Practice in Treasury Management (Indicator 7)** – In accordance with the Prudential Code the Council has adopted the revised Treasury Management Code of Practice on 24 February 2011 and as detailed in the table has adhered to the requirements.
10. **Upper Limit for Fixed and Variable Interest rate Exposure (Indicator 8)** – Interest rate exposure on debt is positive due to it being in relation to interest paid on borrowing and on investments is negative as it is interest being received. When the variable and fixed interest rates are totalled, it will always be 100%. If the majority of the interest received by the Council is fixed and the interest paid on debt is fixed then the closer the actual fixed interest rate exposure will be to 100% and the variable rate exposure to zero. The limits set in the budget were not breached and at Monitor 3 fixed rate exposure was at 14% and variable rate exposure –4%. The HRA reform does not affect this indicator
11. **Upper Limit for total principal sums invested for over 364 days (Indicator 9)** – This has been set at £10m, 20 of the total average investment portfolio. To date in 2011/12, no funds have been invested for longer than 364 day due to the uncertainty in the current economic environment and no value to be obtained from the longer rates available to the council within its credit criteria limits.
12. **Maturity structure of fixed rate borrowing in 2010/11 (Indicator 10)** – The borrowing portfolio is spread across different time periods to ensure that the Council is not exposed to the requirement to take new borrowing in any one year and be exposed to interest rates in any one year. Currently in 2011/12 the borrowing portfolio maturity profile is within the limits set. Under the HRA reform, further work is to be carried out with Housing Services to review the HRA business model and assess the optimal profile for when borrowing is to be taken. At this stage it is estimated that the current limits will allow for the requirements of the HRA reform borrowing maturity profile.

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**Audit & Governance****13 February 2012**

Report of the Cabinet Member for Corporate Services

Scrutiny of Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/2017**Summary**

1. In accordance with the requirements of the revised Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code") which was published in 2011, Audit & Governance Committee will be responsible for ensuring effective scrutiny of the treasury management strategy and policies.
2. The Treasury Management Strategy Statement and Prudential Indicators 2012/13 to 2016/17 is attached at Appendix A, along with the required annexes. This will be the start of the 2012/13 cycle of reports which includes 2 monitoring reports, a mid-year review report and the 2012/13 outturn report.

Background

3. The key areas included in the treasury management strategy report for Members to note are the:
 - a) Prudential Indicators relating to the Capital Programme;
 - b) Prudential Indicators to assess affordability of the Capital programme
 - c) Minimum Revenue Provision (MRP) Policy Statement .
 - d) Prudential Indicators which will limit the treasury management risk and activities of the Council;
 - e) the current treasury position;
 - f) Economic background and prospects for interest rates;
 - g) the borrowing strategy;
 - h) Prudential indicators;
 - i) policy on borrowing in advance of need;
 - j) debt rescheduling;
 - k) investment policy;
 - l) creditworthiness policy;
 - m) investment strategy;

- n) policy on use of external service providers;
 - o) Scheme of delegation and the role of the S151 officer
4. The areas covered in the treasury management strategy report statement and prudential indicators for 2012/13 to 2016/17 are as required in legislation and “the code”.
5. Points of interest to note are as follows:
- a) The prudential indicators are set in line with the council capital programme 2012/13 to 2016/17 to be approved at Full Council on 23 February 2012 along with the strategy at Appendix A.
 - b) The HRA self financing reform which essentially ends the impact of the housing subsidy system and will see the HRA as a stand alone business, will increase the debt portfolio by £122.838m when the settlement payment occurs on 28 March 2012.
 - c) The borrowing strategy is to consider long term borrowing whilst reducing the council’s cash reserves. This ensures that all borrowing is not concentrated to a specific year, reducing the risk to interest rate exposure. It also decreases the Council’s investment portfolio whilst investment interest to be earned is lower than borrowing costs and it decreases the Council’s exposure to credit risk by reduced surplus cash being invested in third parties.
 - d) The target rate for borrowing is 4.5% in 2012/13.
 - e) Debt rescheduling will be reviewed and undertaken if it offers savings over the long term.
 - f) Investment strategy is primarily concerned with the security of the council’s funds and therefore a strict credit criteria policy operates as advised by Sector – the council’s treasury management advisers.
 - g) The target average rate of return for the year 2012/13 is 1.0%.
 - h) The minimum revenue provision policy states the prudent provision is taken to redeem its debt liability over a period which is reasonably. This assists in ensuring that borrowing is affordable, sustainable and prudent.
6. This covering report aims to assist Audit & Governance members in the scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17 by providing keys areas and points to note.

Consultation

7. Not applicable.

Options

8. It is a statutory requirement under Local Government Act 2003 for the council to operate in accordance with the CIPFA prudential Code and the CIPFA

Treasury Management in the Public Services Code of Practice the “Code”. The Council approved the terms of reference in the Constitution be amended to include that Audit & Governance Committee scrutinise the Treasury Management Strategy and Monitoring reports. No alternative options are available.

Council Plan

9. Treasury management is an integral part of the council’s finances providing for cash flow management and financing of capital schemes. It aims to ensure that the council maximises its return on investments, (whilst the priority is for security of capital and liquidity of funds) and minimises the cost of its debts. This allows more resources to be freed up to invest in the Council’s key priority areas as set out in the council plan. It therefore underpins all of the council’s aims.

Implications

10. The implications are
 - Financial – the security of the Councils capital funds is a priority, maximising returns on investments is still key along with minimising the finance costs of debt.
 - Human Resources - there are no human resource implications to this report.
 - Equalities - there are no equality implications to this report.
 - Legal – Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) and the *Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008* (SI 2008/414)
 - Crime and Disorder - there are no crime and disorder implications to this report.
 - Information Technology - there are no information technology implications to this report.
 - Property –there are no property implications to this report.
 - Other - the revised code requires officers and members to scrutiny and manage the treasury function.

Risk Management

11. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice 2011 (the code) are all adhered to as required.

Recommendations

12. That Audit & Governance Committee note the Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17 at Appendix A.

Reason: That those responsible for scrutiny and governance arrangements are updated on a regular basis to ensure that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Contact Details

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Report ☒ Date 13/02/11
approved

Specialist Implications Officer(s) None

Wards Affected: *List wards or tick box to indicate all* **All** ☒

For further information please contact the author of this report

Background Working Papers

Local Government Act 2003 and amendments

CIPFA Prudential Code

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance ("the Code")

Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17



Cabinet

14 February 2012

Report of the Cabinet Member for Corporate Services

Treasury Management Strategy Statement and Prudential Indicators for 2012/13 to 2016/17

Purpose

1. The purpose of this report is to ask the Cabinet to recommend that Council approve the:
 - Integrated treasury management strategy statement including the annual investment strategy and the minimum revenue provision policy statement;
 - Prudential indicators for 2012/13 to 2016/17
 - Revised treasury management policy statement
 - Specified and non-specified investments schedule
 - Treasury management scheme of delegation and role of the section 151 officer

Background

2. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The first function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
 3. The second main function of the treasury management service is the funding of the Council's capital programme. The capital programme provides a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On
-

occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

4. CIPFA (Chartered Institute of Public Finance and Accountancy) defines treasury management as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”

Reporting requirements

5. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Audit & Governance Committee. The three reports are:
 - a) **Treasury management strategy statement and prudential indicators report** (this report) – which covers the treasury management strategy, minimum revenue provision policy, annual investment strategy and prudential indicators;
 - b) **A Mid Year Treasury Management Report** –will update members with whether the treasury activities are meeting the strategy, whether any policies require revision, if amending prudential indicators need amending;
 - c) **An Annual Treasury Report** – updates on treasury activity for the year and compares actual prudential indicators with estimates in the strategy.
-

Treasury Management Strategy for 2012/13

6. The treasury management strategy for 2012/13 covers two main areas – Capital issues and treasury issues which are listed below. These areas cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) Minimum Revenue Provision (MRP) Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance:

a) Capital Issues – Capital Prudential Indicators 2012/13-2014/15

- Prudential Indicators relating to the Capital Programme;
- Prudential Indicators to assess affordability of the Capital programme
- Minimum Revenue Provision (MRP) Policy Statement .

b) Treasury management Issues – Treasury Management Strategy

- Prudential Indicators which will limit the treasury management risk and activities of the Council;
- the current treasury position;
- Economic background and prospects for interest rates;
- the borrowing strategy;
- Prudential indicators;
- policy on borrowing in advance of need;
- debt rescheduling;
- investment policy;
- creditworthiness policy;
- investment strategy;
- policy on use of external service providers;
- Scheme of delegation and the role of the S151 officer

The Capital Prudential Indicators 2012/13 – 2014/15

7. The Council's capital expenditure plans are the key driver of treasury management activity. The Council's Capital expenditure plans are the subject of a separate report the Capital programme 2012/13 to 2016/17. The output of the capital programme is reflected in this report in the capital

prudential indicators. The prudential indicators are designed to assist member's overview of the council's capital programme to ensure that the capital expenditure plans are affordable, sustainable and prudent.

8. The capital prudential indicators (PI) along with the treasury management prudential indicators (PI) are attached at Annex A and are also explained throughout the report:

- PI 1: Capital Expenditure
- PI 2: Capital financing requirement
- PI 3: Ratio of financing cost to Net revenue stream
- PI4&5: Incremental impact of capital investment decisions on council tax and housing rent
- PI6A: Affordable borrowing limit
- PI 6B: Operational boundary
- PI 6C: HRA debt Limit
- PI 7: Interest rate exposure for fixed and variable rated debt
- PI 8: Maturity structure of debt
- PI 9: Surplus funds invested >3654 days

9. HRA Self Financing Reform - A key issue facing the Council in 2012/13 is the impact of planned HRA self financing reform. This essentially ends the impact of the housing subsidy system and will see the HRA as a stand alone business. The Treasury Management Monitor 2 Mid Year Review and prudential Indicator report included information on the HRA Self-financing Reforms and revised the council's prudential Indicators for 2011/12. This report will also cover the HRA Self Financing reform and the further changes following the Government White paper in November 2011. The Council will need to approve these revised prudential indicator limits in advance of the reform being put into operation.
 10. The Council currently pays into the HRA housing subsidy system, and in order to stop future payments from 1 April 2012 the Council is required to pay the CLG £121.550m. This payment is effectively HRA debt, and so the prudential indicators in this treasury management report have been adjusted to reflect this change. The actual payment will be made on the 28 March 2012 and so the indicators will take immediate effect from the approval of these limits by Council. The changes under the HRA reform are expected to be beneficial to the Council.
-

- 11. Prudential Indicator 1 - Capital Expenditure.** This prudential Indicator is a summary of the Council's capital expenditure plans forming part of this budget cycle, where detail is provided in the Capital programme 12/13 to 16/17 report:

Capital Expenditure £m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	48.2	67.6	32.0	23.3	12.7	10.7
HRA existing	10.2	7.8	7.6	7.3	6.4	8.4
HRA settlement	121.6					
Total	180.0	75.5	39.6	30.6	19.1	19.1

Table 1: Capital Expenditure

12. Table 1 details the capital expenditure of the Council excluding other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.
13. **Prudential Indicator 2 - The Capital Financing Requirement (CFR) (Council's Borrowing Need);** the second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
14. Following accounting changes under International Financial Reporting Standards introduced in the Statement of Accounts in 2010/11, the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's overall borrowing requirement, these types of scheme include a borrowing facility of their own and so the Council is not required to separately borrow for these schemes. The Council currently has a limit to cover such schemes of £20m included within the CFR. Table 2 shows the Capital Financing Requirement, excluding other long term liabilities, below:

Capital Financing Requirement £m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA CFR	150.8	168.6	166.8	167.6	168.2	167.3
HRA existing	18.8	18.8	18.8	18.8	18.8	18.8
HRA settlement	121.6	121.6	121.6	121.6	121.6	121.6
HRA CFR	140.4	140.4	140.4	140.4	140.4	140.4
Total CFR	291.1	309.0	307.2	308.0	308.6	307.7

Table 2: Capital Financing Requirement (CFR)

15. **Affordability Prudential Indicators** - The prudential indicators mentioned so far in the report cover the overall capital programme and the control of borrowing through the capital financing requirement. In addition, it is necessary to assess the affordability of the Council's capital investment plans. These prudential indicators provide an indication of the impact of the capital programme investment plans on the Council's overall finances.

16. **Prudential Indicator 3 - Ratio of financing costs to net revenue stream.** This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) and compares it to the Council's net revenue stream.

%	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Non-HRA	7.7%	9.2%	9.2%	8.8%	8.4%	8.2%
HRA (inclusive of Settlement)	2.4%	2.3%	2.1%	2.0%	1.7%	1.7%

Table 3: Ratio of financing costs to net revenue stream

17. **Prudential Indicator 4 - Incremental impact of capital investment decisions on council tax.** This indicator identifies the revenue costs associated with proposed changes to the five-year capital programme recommended in the Capital programme 2012/13 to 2016/17 budget report and compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget.

£	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Council tax - band D	£19.81	£23.89	£18.04	£0.62	£0.98	£0.97

Table 4: - Incremental impact of capital investment decisions on the band D council tax

18. **Prudential Indicator 5 - Incremental impact of capital investment decisions on housing rent levels.** Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the capital programme budget report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels. This indicator is zero as the housing rent levels are set by

Government and is not directly impacted by the Council's capital plans.

£	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Weekly housing rent levels	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00

Table 5 - Incremental impact of capital investment decisions on housing rent levels

MRP Policy Statement

19. The Council is required to pay off an element of the non-HRA (General Fund) capital expenditure each year which has accumulated as the Capital Financing Requirement (CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
20. CLG Regulations (statutory Instrument (SI) 2008 no.414 s4) have been issued which require full Council to approve an MRP Statement in advance of each year. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The four options are:
 - a) The regulatory method (which complies with regulation 28 in SI 2003 no.3146) – 4% of the borrowing outstanding;
 - b) The Capital Financing Method – 4% of the Council's Capital Financing Requirement;
 - c) The Depreciation Method – repayment of the debt over its depreciation life;
 - d) The Asset Life Method – repayment over the life of the asset to which the borrowing has been taken to fund.
21. The Council is recommended to approve the following MRP Statement. For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:
 - **Existing practice** - MRP will follow the existing practice outlined in former CLG regulations (option A);
or

22. These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.
23. From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be
 - Asset Life Method – MRP will be based on the estimated life of the assets, in accordance with the proposed regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option D);
24. These options provide for a reduction in the borrowing need over approximately the asset's life. The asset life is an absolute maximum and wherever possible the debt should be repaid over a shorter period. Estimated asset life periods will be determined under delegated powers. It should be noted that with all debts, the longer the repayment period the more is paid in interest over the period of the loan. It is therefore deemed as prudent to reduce the period over which the repayments are made.
25. No revenue charge is currently required for the HRA under the HRA self-financing reform in the next 5 years. Under the HRA reform the HRA will be required to charge depreciation on its assets, which will have an increased revenue cost effect. In order to address any possible adverse impact in the next 5 years, regulations allow the Major Repairs Allowance to be used as a proxy for depreciation and for the depreciation charge to be reversed therefore, having no revenue impact on council tax. Further guidance is currently under discussion between the CLG and CIPFA.
26. Repayments included in annual PFI or finance leases are also applied as MRP.

Treasury Management Strategy

27. The capital prudential indicators set out above ensure that the Council's capital programme / expenditure plans are affordable, sustainable and prudent. The treasury management function ensures that the Council's cash is available to meet the Council's capital programme requirements and also revenue activity needs in accordance with the Local Government Act 2003 and relevant professional codes
 28. The treasury management function involves both the forecasting of the cash flow and, where capital plans are
-

require, the organisation of appropriate borrowing facilities. The strategy covers the / prudential / treasury indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

29. The Council's treasury portfolio position at 31 December 2011 is detailed below in table 6:

Institution Type	Principal	Average Rate
<u>Public Works Loan Board (PWLB)</u> – Money borrowed from the Debt Mgt Office (Treasury Agency)	£120.1m	4.23%
<u>Market Loans</u>		
Club Loan – A loan taken in conjunction with 2 other Authorities	£10.0m	7.155%
LOBO Loan – Lender Option Borrower Option	£10.0m	3.74%
Total Gross Borrowing	£140.1	4.283%
Total Investments	£ 53.3	1.29%
Net Debt	£ 86.8	

Table 6: Current position at 31 December 2012

30. The Council currently has £140.1m of fixed interest rate debt and £53.3m of investments. It appears that the level of investments is high in the current low investment interest rate environment, however at the end of the financial year the level of investments is estimated to reduce from cash flow movements and as the capital programme continues to spend, to £25m.
31. In addition, even though investment interest rates are currently low, in future borrowing rates are predicted to rise. It has therefore been important during 2011/12 to take a long term view on borrowing and £7m new loans have been taken. It is sensible to take some borrowing now to prevent (in future) a large amount of borrowing having to occur in a specific year. This reduces the risk of exposure to interest rates in a single year and gives some stability to the overall Council revenue budget.
32. The total borrowing requirement in 2011/12 is £17.1m and to date only £7m of borrowing has been taken. This is 41% of the borrowing requirement in 2011/12. The markets continue to be monitored to take advantage of favourable rates.

33. The £140.1m of borrowing has an average life of 17.7 years and average cost of debt of 4.283%. The Council currently has no variable rate borrowing. The Council is only permitted to borrow to invest in capital projects, unless permitted to do otherwise by the Government. Therefore the majority of the Councils existing debt is secured against its asset base.
34. Figure 1 shows the Councils current debt maturity structure as at 31 December 2011:

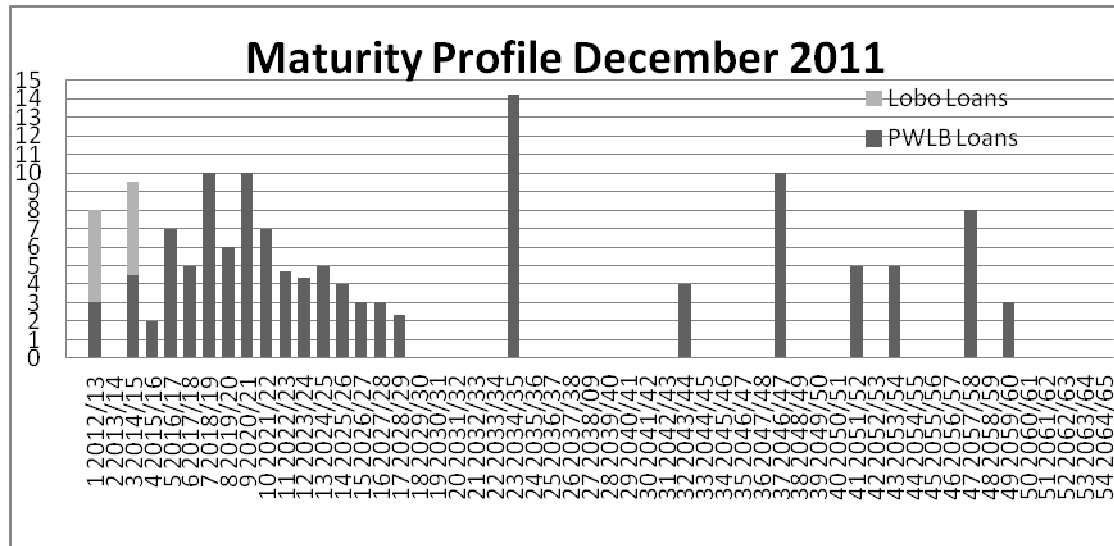


Figure 1 – Debt Maturity Profile as at 31 December 2011

35. The Council's total investments at 31 December 2011 was £53.3m of which £12.0m were held in instant access call accounts, £7.3m in instant access money market funds and £34.0m invested in fixed term deposits on the UK money market
36. Further to the current treasury management position above, it is key that the council operates its treasury management activities within defined prudential indicator limits. One of these is that the Council needs to ensure that its total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year 2011/12 plus the estimates of any additional CFR for 2012/13 and the following two financial years . This allows the flexibility to borrow in advance of need and ensures that borrowing is for a capital purpose and that borrowing is not undertaken for revenue purposes.
37. Table 7 shows that the net debt position of the Council does not exceed the underlying capital borrowing need (the Capital Financing Requirement - CFR). The Director of Customer Business & Support Services (S151 Officer) confirms that the

Council complied with this prudential indicator and does not envisage difficulties for the future.

£m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
External Debt	261.7	278.5	278.1	278.6	278.4	277.5
Investment	(25)	(20)	(20)	(20)	(20)	(20)
Net Debt	241.7	258.5	258.1	258.6	258.4	257.5
Total CFR	291.1	309.0	307.2	308.0	308.6	307.7
NET < CFR	Yes	Yes	Yes	Yes	Yes	Yes

Table 7: Net Debt < Capital Financing Requirement

Prudential Indicators: Limits on Authority to Borrow

38. Prudential Indicator 6A – Authorised Borrowing Limit - It is a statutory duty under Section 3 (1) of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Authorised Borrowing Limit”, and represents a control on the maximum level of debt. This is a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Authorised Limit £m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Borrowing	215.4	216.3	216.9	216.0	216.0	216.0
HRA settlement	121.6	121.6	121.6	121.6	121.6	121.6
Other Long term liabilities	10	20	20	20	20	20
Total	347.0	357.9	358.5	357.6	357.6	357.6

Table 8: Authorised Borrowing Limit

39. Prudential Indicator 6B – Operational Boundary. In addition to the “authorised Borrowing Limit”, there is a limit which is the maximum level of debt allowed for, on an ongoing operational purpose. This is the Operational Boundary. The Operational Boundary in reality would only be breached because of in year cash flow movements. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt

Operational Boundary £m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Borrowing	195.4	196.3	196.9	196.0	196.0	196.0
HRA settlement	121.6	121.6	121.6	121.6	121.6	121.6
Other Long term liabilities	10	20	20	20	20	20
Total	327	327.9	328.5	327.6	327.6	327.6

Table 9: Operational Boundary

40. Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime, known as the HRA Debt Limit. This limit is currently:

HRA Debt Limit £m	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Total HRA	145.97	145.97	145.97	145.97	145.97	145.97

Table 10: HRA Debt Limit

Economic Background

41. The economic situations is the background to which all treasury management activities operate. It assists in the formation of the treasury management strategy as it details the current economic and market environment. Further information on the current economic environment is available on request.

Prospects for Interest Rates

42. Current interest rates and the future direction of both long term and short term interest rates have a major influence on the overall treasury management strategy and affects both investment and borrowing decisions. To facilitate treasury management officers in making informed investment and borrowing decisions the Council contracts Sector as its treasury adviser. Part of their service is to assist the Council in formulating a view on interest rates. Annex B draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interests rates. Table 11 gives Sector's central view:

Annual Average %	Bank Rate	Investment Rates		Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

Table 11 – Sector's Bank Rate forecast for financial year ends

43. Sector Treasury services view of fixed long term borrowing rates (PWLB) and the base rate are also shown in graphical format below in Figure 2.

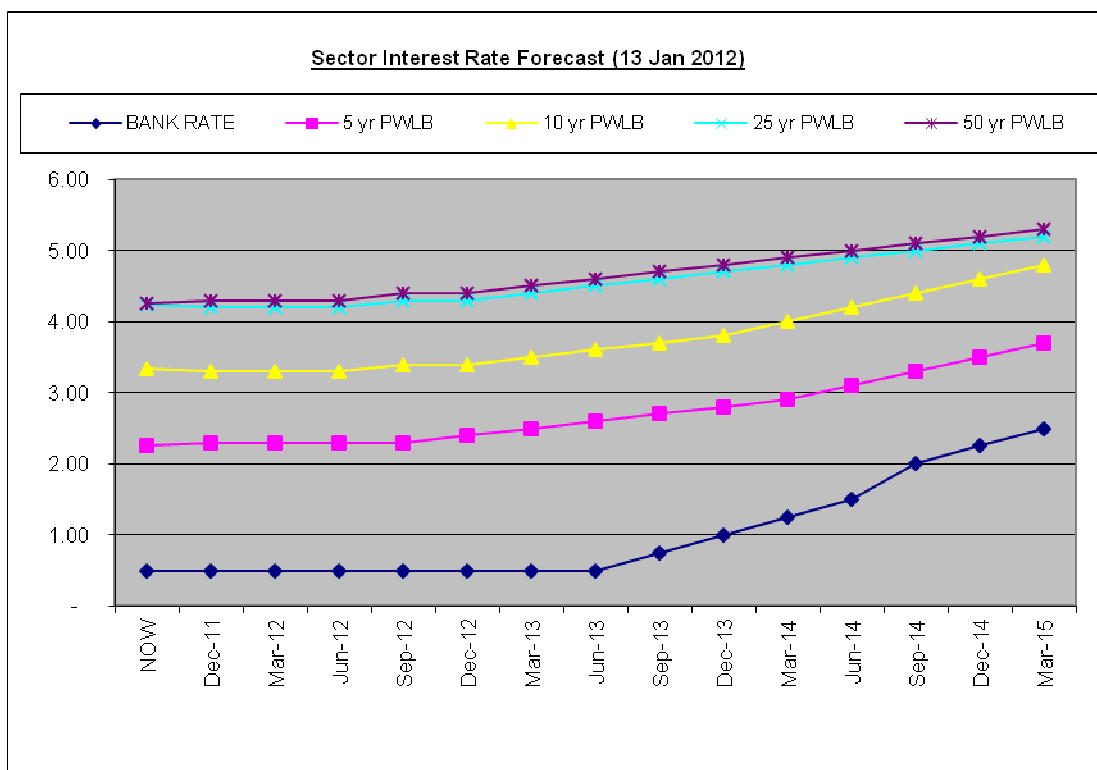


Figure 2 – Sector interest rate forecast

44. The graph clearly shows that the base rate and the range of PWLB borrowing rates are forecast to remain relatively flat until March 2013 where rates are seen to gradually rise.
45. Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins investment returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.
46. Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this

period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

47. This challenging and uncertain economic outlook has a several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;
- Investment returns are likely to remain relatively low during 2012/13;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of capital – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

Borrowing Strategy

48. The Council undertakes long term borrowing in accordance with the capital expenditure requirements of the capital programme. As a result of the capital programme 2012/13 to 2016/17 the borrowing requirement is projected to increase significantly from its current level of £141.6m in 2011/12 to a high of £309.0m over the next 5 years.

49. The increase in the borrowing requirement is as a result of the general requirements of the capital programme expenditure and specifically, borrowing rises due to:

- (i) £14.211m Administrative accommodation project
- (ii) £20m Economic Infrastructure Fund
- (iii) £121.550m HRA reform

50. The borrowing requirement for the administrative accommodation project of £14.2m is the funding needed to support the move to the new West Office building in 2012/13. The total capital expenditure of the project approved by Members remains at £43.804m and results in a saving over 25 years of £17m. Total borrowing requirement of the project is £29.628m, with the remainder of the funding being provided from a revenue

contribution of £1.092m and earmarked capital receipts of £13.084m

51. The borrowing requirement for the Economic Infrastructure Fund will deliver major economic benefits for the City of York covering strategic themes/priorities – further information is available in the capital programme budget 2012/13 to 2016/17 report.
 52. The £121.6m borrowing requirement for the HRA reform is detailed in the additional HRA borrowing strategy below.
 53. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the above interest rate forecast. Therefore, the borrowing strategy will be to lock into some long-term borrowing in 2012/13 whilst interest rates are lower than in the coming years, but also give consideration not to undertake external borrowing but rather use cash balances.
 54. The use of the Council's cash balances means that the capital borrowing need (the Capital Financing Requirement quoted above), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as consideration has to be given to the investment rate of return that is currently being received on Council's cash balances. Investment returns are low due to the continued historical low interest rates and counterparty risk is high.
 55. It is therefore beneficial to have a borrowing strategy where consideration is given to taking some longer term borrowing and also use some cash reserves.
 56. External borrowing will be taken throughout the financial year when interest rates seem most favourable. A target interest rate in light of table 11 above is 4.5%. This will enable borrowing to be taken through the year at different time periods. Consideration will also be given to the maturity profile of the debt portfolio so the Council is not exposed to the concentration of debt being in any one year.
 57. Against this background and the risks within the economic forecast, caution will be adopted with the 2012/13 treasury operations. The Director of Customer Business and Support Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:
 - if it was felt that there was a significant risk of a sharp FALL in long and short term rates, e.g. due to a marked increase of
-

risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

58. For the first time in 2012/13 a borrowing strategy needs to be identified for the HRA as a result of the HRA Reform. Under the HRA Self-financing reform, on 28 March 2012, there is a requirements for the Council to make a one-off payment to Communities and Local Government for £121.550m which will remove the Council from the current HRA subsidy system. This one off payment will ensure that the HRA will no longer make future annual payments to the CLG and it is expected that the overall impact will be beneficial to the Council.
 59. The Council will need to have the cash settlement amount of £121.550m available by the 28 March 2012, so separate borrowing solely for this purpose is anticipated. The Public Works Loan Board (PWLB) - the Governments public sector loans facility - are providing loans at interest rates 0.85% lower than the usual PWLB interest rates. These lower rates are solely for the HRA settlement requirements specifically on 28 March 2012 and this provides a compelling reason to utilise this borrowing availability.
 60. The exact structure of debt to be drawn is currently being considered by officers to ensure it meets the requirements of the HRA business plan and the overall requirements of the Council. Whilst the debt can be drawn earlier than needed, this may incur additional revenue costs that potentially would not occur if debt is taken on 28 March 2012 or it could incur a revenue saving that would not occur if debt is taken on 28 March 2012. This will be considered when a review of the structure of actual prevailing borrowing and investment interest rates is undertaken nearer to the time.
 61. Part of the HRA borrowing strategy is therefore to have funds available for the cash settlement to CLG of £121.550m on 28 March 2012. The exact structure of borrowing, the rate of interest
-

and whether surplus cash balances will be used as an alternative to borrowing will be considered by officers. In addition, the HRA strategy in 2012/13 for borrowing will be the same as the borrowing strategy described above for the whole Council. However, it is not expected that the HRA will take any further borrowing in the foreseeable future.

62. All decisions will be reported to the appropriate decision making body – Cabinet - at the next available opportunity.

Prudential Indicators – Limits on Borrowing Activity

63. There are three debt / borrowing related prudential indicators. The purpose of these are to constrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. This gross limit is set to reduce the Council's exposure to large fixed rate sums falling due for refinancing in a confined number of years.

64. These three debt/borrowing related prudential indicators are calculated to include the debt undertaken for the HRA as well as the remaining borrowing debt portfolio.

£m	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate
Interest rate Exposure					
	Upper	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	104%	104%	104%	104%	104%
Limits on variable interest rates based on net debt	-4%	-4%	-4%	-4%	-4%

Maturity Structure of borrowing 2012/13		
	Lower	Upper
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	40%
10 years and above	30%	90%

Table 12: Limits on Interest rate exposure and the Maturity Structure of Borrowing

Policy on Borrowing in Advance of Need

65. The Council will not borrow more, than or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.
66. Under regulation, the Council can borrow in advance of need in line with its future borrowing requirements in accordance with the Capital Financing Requirement. Any borrowing decision in advance of need will be considered carefully to ensure that value for money can be demonstrated, it is affordable, sustainable & prudent, that the treasury management revenue budget can support the borrowing finance costs in the longer term and that the Council can ensure the security of such funds if invested.
67. Borrowing in advance will be made within the constraints of the CIPFA Prudential Code that ensures that total debt, net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year 2011/12 plus the estimates of any additional CFR for 2012/13 and the following two financial years.
68. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

69. It is forecast that short term borrowing rates will be considerably cheaper than longer term fixed interest rates in the foreseeable future. Therefore, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury management position, the short term nature of the loans, the costs of premiums involved in premature repayment for existing debt

and the likely cost of refinancing those short-term loans, once they mature.

70. Debt rescheduling will also be considered for the HRA and the costs and benefits assessed to ensure value for money.

71. The reasons for any rescheduling to take place will include:

- a) the generation of cash savings and / or discounted cash flow savings;
- b) helping to fulfil the strategy outlined above, and
- c) enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

72. Consideration will also be given to identify if there is any residual potential left for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

73. Any rescheduling will be reported in accordance with the usual monitoring cycle.

Annual Investment Strategy

Investment Policy

74. The Council will have regard to the department of Communities and Local Government's (CLG) Guidance on Local Government Investments ("the Guidance") and the 2009 CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

75. The Council's investment priorities are the security of capital and the liquidity of its investments. The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments, see later in the section of the Creditworthiness Policy.

76. The borrowing of monies specifically to invest or lend on and make a return is unlawful and the Council will not engage in such activity.

77. In accordance with "the Guidance" it is necessary in the strategy to determine investment instruments, which are identified, for use in the financial year. The investment

instruments are classed under “specified” and “non-Specified” investments categories and are detailed in Annex C. It is also a requirement to set limits for the institutions in which the Council will invest their surplus funds - Counterparties limits. These are set out in the later section - the Investment Strategy.

78. Consideration will be given throughout the year, and approval requested where necessary, to the alteration of the “specified” and “non-specified” investment categories to allow the continued effective management of the Councils treasury management operations. The Council continues to take a prudent approach to investing funds as set out in the Creditworthiness Policy below.

Creditworthiness Policy

79. This Council uses the creditworthiness service provided by Sector Treasury Services. This service has been progressively enhanced over the last year and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, which forms the core element. It does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

80. This modelling approach combines credit ratings, credit watches, credit outlooks and CDS (Credit Default Swap) spreads in a weighted scoring system for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments and are therefore referred to as durational bands. The Council is satisfied that this service now gives a much-improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

81. The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions
-

down to a minimum durational band within Sector's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:

Yellow	5 years*
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	3 months
No colour	not to be used

**This category is for AAA rated Government debt or its equivalent;*

82. The Sector creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings

83. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-, Viability ratings of BB+, and a Support rating of 3. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

84. All credit ratings will be monitored on an ongoing basis as information is provided weekly basis and also adhoc. The Council is alerted to changes to ratings of all three agencies through its use of the Sector creditworthiness service:

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of Credit Ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in

downgrade of an institution or removal from the Councils lending list.

85. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex D. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

Investment Strategy

86. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). The Council uses matrices that stipulate both time and financial limits in order to spread counterparty (credit) risk when investing money with approved counterparties. The matrices are based on the projected average balance for the year. Therefore for 2011/12 (as for 2010/11) with the average balance forecast to be circa £60m, the matrix stipulates a limit for £8m for counterparties with a durational band of 3 months and £15m longer than 3 months.

87. For 2012/13, in the current economic environment, the Council has budgeted for an investment return target of 1% on investments placed during the financial year. The budgeted investment earnings rates for returns on investments placed for periods up to three months during each financial year for the next five years are as follows:

2012/13	0.70%
2013/14	1.00%
2014/15	1.60%
2015/16	3.30%
2016/17	4.10%

88. There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth remains weaker for longer than expected. However, should the pace of growth pick up more sharply than expected there could be upside risk, particularly if Bank of England inflation forecasts for two years ahead exceed the Bank of England's 2% target rate.

89. For its cash flow generated balances, the Council will seek to utilise, business reserve accounts (call accounts), 15 to 30 day

notice accounts, short dated fixed term deposits and money market funds. The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness, which make longer-term deals worthwhile, and within the risk parameters set by this council.

90. **Prudential Indicator 9** - total principal investment funds invested for greater than 364 days. This limit is set with regards to the Council's liquidity requirements and are based on the availability of funds after each year-end. A maximum principal sum to be invested for greater than 364 days is £10m
91. At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report. It should be noted that the Investment policy, creditworthiness policy and investment strategy are applicable to the council's overall surplus funds and are also pertinent to the HRA.

Policy on the use of external service providers

92. The Council uses Sector as its external treasury management advisors.
93. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
94. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Scheme of Delegation and the Role of the Section 151 Officer

95. Those charged with governance are responsible for the treasury management activities and these need to be clearly defined within the organisation. Attached at Annex E are the Treasury Management Scheme of Delegation and also the Treasury Management role of the section 151 officer (Director of Customer & Business Support Services).
-

Consultation and Options

96. The treasury management function of any business is a highly technical area, where decisions are often taken at very short notice in reaction to the financial markets. Therefore, to enable effective treasury management, all operational decisions are delegated by the Council to the Director of Customer & Business Support Services, who operates within the framework set out in this strategy and through the Treasury Management Policies and Practices. In order to inform sound treasury management operations the Council works with its Treasury Management advisers, Sector Treasury Services. Sector Treasury Services offer the Council a comprehensive information and advisory service to enable the Council to maximise its investment returns and minimise the costs of its debts.
97. Treasury Management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians. The revenue budget and capital budget proposals are included within this agenda.
98. At a strategic level, there are a number of treasury management options available which depend on the Council's stance on interest rate movements. The report sets out the Council's stance and recommends the setting of key trigger points for borrowing and investing over the forthcoming financial year.

Council Plan

99. The Treasury Management Strategy Statement and Prudential Indicators are aimed at ensuring the Council maximises its return on investments and minimises the cost of its debts. This will allow more resources to be freed up to invest in the Council's priorities, values and imperatives, as set out in the Council's Plan.

Implications

100. Implications of the report are as follows:
-

- **Financial** – The revenue implications of the treasury strategy are set out in the Revenue Budget report also on this agenda.
- **Human Resources (HR)** – None
- **Equalities** – None
- **Legal** – Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance.
- **Crime and Disorder** – None
- **Information Technology (IT)** – None
- **Property** – None

Risk Management

101. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), supporting regulations, the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice (the code) are all adhered to as required.

Recommendations

102. The Cabinet are asked to recommend that Council approve:
- a. The proposed Treasury Management Strategy for 2012/13 including the annual investment strategy and the minimum revenue provision policy statement;
 - b. The Prudential Indicators for 2012/13 to 2016/17 in the main body of the report;
 - c. The Specified and Non-specified investments schedule (Annex C)
 - d. The Scheme of Delegation and the Role of the Section 151 Officer (Annex E)

Reason: To enable the continued effective operation of the Treasury Management function and ensure that all Council borrowing is prudent, affordable and sustainable.

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Keith Best
Assistant Director CBSS (Finance)

Report ☐ **Date** 15/02/11
Approved

Ian Floyd - Director of Customer Business
and Support Services

Report ☐ **Date** 14/02/12
Approved

Specialist Implications Officer(s)

N/a

Wards Affected:

All ☐ Y

For further information please contact the author of the report

Background Papers

Prudential indicator workings 2011/12 to 15/16

Treasury management budget 2011/12

Capital programme 2012/13 to 2016/17 report

Capital budget control 2011/11 to 2016/17.

Sector -treasury management advisers commentary.

Annexes

Annex A – Prudential and Treasury Indicators 2011/12– 2016/17

Annex B – Interest Rate Forecast

Annex C – Specified and Non-Specified Investments categories
Schedule

Annex D – Approved countries for investments

Annex E – Scheme of Delegation and the Role of the Section 151
Officer

Annex A

PRUDENTIAL INDICATORS			2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
			Probable Outturn	estimate	estimate	estimate	estimate	estimate
1)	Capital Expenditure		£'m	£'m	£'m	£'m	£'m	£'m
	To allow the authority to plan for capital financing as a result of the capital programme. To enable the monitoring of capital budgets to ensure they remain within budget	Non - HRA	48.2	67.6	32.0	23.3	12.7	10.7
		HRA	131.8	7.8	7.6	7.3	6.4	8.4
		TOTAL	180.0	75.5	39.6	30.6	19.1	19.1
2)	Ratio of financing costs to net revenue stream							
	This indicator estimates the cost of borrowing in relation to the net cost of Council services to be met from government grant and council tax payers. In the case of the HRA the net revenue stream is the income from Rents and Subsidy	Non - HRA	7.7%	9.2%	9.2%	8.8%	8.4%	8.2%
		HRA	2.4%	2.3%	2.1%	2.0%	1.7%	1.7%
3)	Incremental impact of capital investment decisions - Council Tax		£ p	£ p	£ p	£ p	£ p	£ p
	Shows the actual impact of capital investment decisions on council tax. The impact on council tax is a fundamental indicator of affordability for the Council to consider when setting forward plans. The figure relates to how much of the increase in council tax is used in financing the capital programme and any related revenue implications that flow from it.	Increase in Council Tax (band D) per annum	19.81	23.89	18.04	0.62	0.98	0.97
4)	Incremental impact of capital investment decisions - Hsg Rents		£ p	£ p	£ p	£ p	£ p	£ p
	Shows the actual impact of capital investment decisions on HRA rent. For CYC, the HRA planned capital spend is based on the government's approved borrowing limit so there is no impact on HRA rents.	Increase in average housing rent per week	0.00	0.00	0.00	0.00	0.00	0.00
5)	Capital Financing Requirement as at 31 March		£'m	£'m	£'m	£'m	£'m	£'m
	Indicates the Council's underlying need to borrow money for capital purposes. The majority of the capital programme is funded through government support, government grant or the use of capital receipts. The use of borrowing increases the CFR.	Non - HRA	150.8	168.6	166.8	167.6	168.2	167.3
		HRA	140.4	140.4	140.4	140.4	140.4	140.4
		TOTAL	291.1	309.0	307.2	308.0	308.6	307.7

6a)	Authorised Limit for external debt -		£'m	£'m	£'m	£'m	£'m	£'m
	The authorised limit is a level set above the operational boundary in acceptance that the operational boundary may well be breached because of cash flows. It represents an absolute maximum level of debt that could be sustained for only a short period of time. The council sets an operational boundary for its total external debt, gross of investments, separately identifying borrowing from other long term liabilities for 3 financial years.	borrowing	327.2	327.9	328.5	327.6	357.6	357.6
		other long term liabilities	20	20	20	20	20	20
		TOTAL	357.2	357.9	358.5	357.6	357.6	357.6
6b)	Operational Boundary for external debt -		£'m	£'m	£'m	£'m	£'m	£'m
	The operational boundary is a measure of the most likely, prudent, level of debt. It takes account of risk management and analysis to arrive at the maximum level of debt projected as part of this prudent assessment. It is a means by which the authority manages its external debt to ensure that it remains within the self imposed authority limit. It is a direct link between the Council's plans for capital expenditure; our estimates of the capital financing requirement; and estimated operational cash flow for the year.	borrowing	307.2	307.2	308.5	307.6	307.6	307.6
		other long term liabilities	20	20	20	20	20	20
		TOTAL	327.2	327.2	328.5	327.6	327.6	327.6
7)	Adoption of the CIPFA in Public Services: Code of Practice and Cross-Sectoral Guidance Notes	Recommended in the Treasury Management Strategy 2010/11 to 2014/15						
8a)	Upper limit for fixed interest rate exposure							
	The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts	Net principal re fixed rate borrowing / investments	104%	104%	104%	104%	104%	104%
8b)	Upper limit for variable rate exposure							
	The Council sets limits to its exposures to the effects of changes in interest rates for 3 years. The Council should not be overly exposed to fluctuations in interest rates which can have an adverse impact on the revenue budget if it is overly exposed to variable rate investments or debts	Net principal re variable rate borrowing / investments	-4%	-4%	-4%	-4%	-4%	-4%

			2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
9)	Upper limit for total principal sums invested for over 364 days		£'m	£'m	£'m	£'m	£'m	£'m
	The Council sets an upper limit for each forward financial year period for the level of investments that mature in over 364 days. These limits reduce the liquidity and interest rate risk associated with investing for more than one year. The limits are set as a percentage of the average balances of the investment portfolio.	Upper Limit	£10	£10	£10	£10	£10	£10
10)	Maturity structure of new fixed rate borrowing during 2006/07		Upper Limit	Lower Limit				
		under 12 months	30%	0%				
		12 months and within 24 months	30%	0%				
		24 months and within 5 years	40%	0%				
		5 years and within 10 years	40%	0%				
		10 years and above	90%	30%				
	To minimise the impact of debt maturity on the cash flow of the Council. Over exposure to debt maturity in any one year could mean that the Council has insufficient liquidity to meet its repayment liabilities, and as a result could be exposed to risk of interest rate fluctuations in the future where loans are maturing. The Council therefore sets limits whereby long term loans mature in different periods thus spreading the risk.							

Glossary Of Abbreviations

HRA Housing Revenue Account
 SORP Statement of Recommended Practice - for Local Authority Accounting

CYC City of York Council
 CFR Capital Financing Requirement

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ANNEX B - Interest Rate Forecast 2011/2015

Sector's Interest Rate View															
	Now	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Sector's Bank Rate View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
3 Month LIBID	0.87%	0.70%	0.70%	0.70%	0.70%	0.70%	0.75%	0.80%	0.90%	1.20%	1.40%	1.60%	2.10%	2.40%	2.60%
6 Month LIBID	1.16%	1.00%	1.00%	1.00%	1.00%	1.00%	1.10%	1.20%	1.40%	1.60%	1.80%	2.00%	2.50%	2.70%	2.90%
12 Month LIBID	1.65%	1.50%	1.50%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.20%	2.40%	2.60%	3.10%	3.20%	3.30%
5yr PWLB Rate	2.25%	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
10yr PWLB Rate	3.33%	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
25yr PWLB Rate	4.24%	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
50yr PWLB Rate	4.26%	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
Bank Rate															
Sector's View	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%	2.00%	2.25%	2.50%
UBS	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-	-	-	-	-
Capital Economics	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	-	-	-	-	-
5yr PWLB Rate															
Sector's View	2.25%	2.30%	2.30%	2.30%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	3.10%	3.30%	3.50%	3.70%
UBS	2.25%	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Economics	2.25%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
10yr PWLB Rate															
Sector's View	3.33%	3.30%	3.30%	3.30%	3.40%	3.40%	3.50%	3.60%	3.70%	3.80%	4.00%	4.20%	4.40%	4.60%	4.80%
UBS	3.33%	3.45%	3.45%	3.50%	3.60%	3.65%	-	-	-	-	-	-	-	-	-
Capital Economics	3.33%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	-	-	-	-	-
25yr PWLB Rate															
Sector's View	4.24%	4.20%	4.20%	4.20%	4.30%	4.30%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%
UBS	4.24%	4.80%	4.90%	4.90%	4.90%	4.90%	-	-	-	-	-	-	-	-	-
Capital Economics	4.24%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	4.30%	-	-	-	-	-
50yr PWLB Rate															
Sector's View	4.26%	4.30%	4.30%	4.30%	4.40%	4.40%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
UBS	4.26%	4.80%	4.95%	4.95%	5.00%	5.00%	-	-	-	-	-	-	-	-	-
Capital Economics	4.26%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	4.40%	-	-	-	-	-

Annex C**Specified and Non-Specified Investments Categories**

A variety of specified and non-specified investment instruments will be used to place the Council's surplus funds. These investment instruments are, subject to the credit quality of the institution. The criteria, time limits and monetary limits applying to institutions or investment vehicles are list in the tables below.

Accounting treatment of investments. *The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, a review of the accounting implications of new transactions will be occur before they are undertaken.*

SPECIFIED INVESTMENTS:

All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable

Institution / Counterparty	Minimum 'High' Credit Criteria	Use
<i>Term Deposits with nationalised banks and banks and building societies operating with government guarantees</i>		
<i>Debt Management Agency Deposit Facility</i>	<i>UK Sovereign rating</i>	<i>In-house</i>
<i>Term deposits – local authorities</i>	<i>UK Sovereign rating</i>	<i>In-house</i>
<i>Term deposits – banks and building societies</i>	<i>Coded: Orange on Sectors Matrix. Fitch's rating: Short-term F1+, Long-term AA-, Individual B, Support 2 Or equivalent rating from Standard & Poors and Moody's</i>	<i>In-house</i>
<i>Collateralised deposit</i>	<i>UK Sovereign rating</i>	<i>In-house and Fund Mangers</i>
<i>Certificates of deposits issued by banks and building societies covered by UK Government guarantee</i>	<i>UK Sovereign rating</i>	<i>In-house and Fund Mangers</i>

<i>Certificates of deposits issued by banks and building societies</i>	<i>Fitch's rating: UK sovereign rating or Short-term F1+, Long-term AA-, Individual B, Support 2 or equivalent rating from Standard & Poors and Moodys</i>	<i>In-house and Fund Managers</i>
<i>UK Government Gilts</i>	<i>UK Sovereign rating</i>	<i>In-house buy and hold and Fund Managers</i>
<i>Bonds issued by multilateral development banks</i>	<i>Long term AAA</i>	<i>In-house buy and hold and Fund Managers</i>
<i>Bonds issued by a financial institution which is guaranteed by the UK government</i>	<i>UK Sovereign rating</i>	<i>In-house buy and hold and Fund Managers</i>
<i>Sovereign bond issues (other than the UK govt)</i>	<i>Sovereign rating</i>	<i>In-house buy and hold and Fund Managers</i>
<i>Treasury Bills</i>	<i>UK Sovereign rating</i>	<i>Fund Managers</i>
<i>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -</i>		
<i>1. Government Liquidity Funds</i>	<i>Short-term F1, Long-term AAA</i>	<i>In-house and Fund Managers</i>
<i>2. Money Market Funds</i>	<i>Short-term F1, Long-term AAA</i>	<i>In-house and Fund Managers</i>
<i>.3. Enhanced cash funds</i>	<i>Short-term F1, Long-term AAA</i>	<i>In-house and Fund Managers</i>
<i>4. Bond Funds</i>	<i>Long-term AAA</i>	<i>In-house and Fund Managers</i>
<i>5. Gilt Funds</i>	<i>Long-term AAA</i>	<i>In-house and Fund Managers</i>
<i>UK Nationalised Banks</i>	<i>UK sovereign rating</i>	<i>In-house and Fund Managers</i>
<i>UK Part nationalised Banks</i>	<i>UK sovereign rating</i>	<i>In-house and Fund Managers</i>

NON-SPECIFIED INVESTMENTS:

A maximum of 100% can be held in aggregate in non-specified investment

1. Maturities of ANY period

<i>Institution / Counterparty</i>	<i>Minimum Credit Criteria</i>	<i>Use</i>	<i>Max % of total investments</i>	<i>Max. maturity period</i>
<i>Term deposits – banks and building societies</i>	<i>Coded: red and green on Sectors Matrix. Fitch's rating: Short-term F1, Long-term A-, Or equivalent rating from Standard & Poors and Moody's</i>	<i>In-house</i>	<i>100%</i>	<i>3-6 Months</i>

<i>Fixed term deposits with variable rate and variable maturities: -Structured deposits</i>	<i>Short-term F1+, Long-term AA-, Individual B, Support 2</i>	<i>In-house</i>	<i>40%</i>	<i>1 Year</i>
<i>Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee</i>	<i>Short-term F1+, Long-term AA-, Individual B, Support 2</i>	<i>In-house buy and hold and Fund Managers</i>	<i>30%</i>	<i>1 Year</i>
<i>Commercial paper issuance covered by a specific UK Government guarantee and issued by banks covered by the UK bank support package</i>	<i>UK Sovereign rating</i>	<i>In-house and Fund Managers</i>	<i>30%</i>	<i>1 Year</i>
<i>Commercial paper other</i>	<i>Short-term F1+, Long-term AA-, Individual B, Support 2</i>	<i>In-house</i>	<i>30%</i>	<i>1 Year</i>
<i>Corporate Bonds other: the use of these investments are under consultation. From 1/4/12 potential that they are no longer classed as capital expenditure. (Update will be given in the outturn report)</i>	<i>Short-term F1+, Long-term AA-, Individual B, Support 2</i>	<i>In-house and Fund Managers</i>	<i>N/A – Capital Expenditure BUT Under consultation 1/4/12.</i>	<i>N N/A – Capital Expenditure - But Under consultation on 1/4/12.</i>
<i>Other debt issuance by UK banks covered by UK Government guarantee</i>	<i>UK Government explicit guarantee</i>	<i>In-house and Fund Managers</i>	<i>30%</i>	
<i>Floating Rate Notes: the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank</i>	<i>Long-term AAA</i>	<i>Fund Managers</i>	<i>N/A – Capital Expenditure</i>	<i>N/A – Capital Expenditure</i>
<i>Property fund: the use of these investments would constitute capital expenditure</i>	<i>--</i>	<i>Fund Managers</i>	<i>N/A – Capital Expenditure</i>	<i>N/A – Capital Expenditure</i>
<i>Local Authority mortgage guarantee scheme</i>	<i>Short-term F1+, Long-term AA-, Individual B, Support 2</i>	<i>In-house</i>		

2. Maturities in excess of 1 year

<i>Term deposits – local authorities</i>	<i>--</i>	<i>In-house</i>	<i>10%</i>	<i>> 1 year</i>
<i>Term deposits – banks and building societies</i>	<i>Coded: Purple on Sectors Matrix. Fitch's rating: Short-term F1+, Long-term AA-, Individual B, Support 2 Or equivalent rating</i>	<i>In-house</i>	<i>10%</i>	<i>> 1 year</i>

	<i>from Standard & Poors and Moody's</i>			
<i>Certificates of deposits issued by banks and building societies covered by UK Government guarantee</i>	<i>UK Sovereign</i>	<i>In house and Fund Managers</i>	<i>10%</i>	<i>> 1 year</i>
<i>Certificates of deposits issued by banks and building societies covered by the UK government banking support package</i>	<i>UK Sovereign</i>	<i>In house and Fund Managers</i>	<i>10%</i>	<i>> 1 year</i>
<i>Certificates of deposits issued by banks and building societies NOT covered by the UK government banking support package</i>	<i>Short-term F1+, Long-term AA-, Individual B, Support 2</i>	<i>In house and Fund Managers</i>	<i>10%</i>	<i>> 1 year</i>
<i>UK Government Gilts</i>	<i>UK Sovereign rating</i>	<i>In-house and Fund Managers</i>	<i>10%</i>	<i>> 1 year</i>
<i>Bonds issued by multilateral development banks</i>	<i>Long term AAA</i>	<i>In-house and Fund Managers</i>	<i>10%</i>	<i>> 1 year</i>
<i>Sovereign bond issues (i.e. other than the UK govt)</i>	<i>Long term AAA</i>	<i>In-house and Fund Managers</i>	<i>10%</i>	<i>> 1 year</i>
<i>Collective Investment Schemes structure as open Ended Investment Companies (OEICs)</i>				
<i>1. Bond Funds</i>	<i>Long-term AAA</i>	<i>In-house and Fund Managers</i>		
<i>2. Gilt Funds</i>	<i>Long-term AAA</i>	<i>In-house and Fund Managers</i>		

Annex D

Approved countries for investments

AAA

- Australia
- Canada
- Denmark
- Finland
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K.

AA+

-
- France
- Hong Kong
- U.S.A.

AA

- Belgium
- UAE

AA-

- Japan
 - Qatar
 - Saudi Arabia
-

Annex E

Treasury Management Scheme of Delegation

(i) Executive / Full Council

- receiving and reviewing reports on treasury management policies, practices and activities
- approval of annual strategy and annual outturn

(ii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- budget consideration and approval
- approval of the division of responsibilities
- receiving and reviewing regular monitoring reports and acting on recommendations

(iii) Audit & Governance Committee

- receiving and scrutinising reports on treasury management policies, practices and activities
- scrutinising the annual strategy, annual outturn and quarterly updates.

(iv) Director of resources (Section 151 Officer)

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Approving the selection of external service providers and agreeing terms of contract in accordance with the delegations in financial regulations.

The Treasury Management Role of the Section 151 Officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
 - submitting regular treasury management policy reports
 - submitting budgets and budget variations
 - receiving and reviewing management information reports
 - reviewing the performance of the treasury management function
-

- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.



Audit and Governance Committee

13 February 2012

Report of the Assistant Director, Financial Services

Fraud Risk Assessment & Review of Counter Fraud Policies**Summary**

- 1 The purpose of this report is to inform Members about potential fraud risks that the council is exposed to, and proposed counter fraud activity to address those risks. The report also details the outcome of a review of the council's counter fraud policies.

Background

- 2 Fraud is a significant issue for all public sector organisations. Current estimates suggest fraud costs the public purse in excess of £17bn per year. In addition, reports by the Audit Commission, and other authorities, suggest that the risk of fraud is growing due to additional pressures on suppliers, customers and staff in the current economic climate. To help direct counter fraud resources to the areas most needed, it is essential that the council considers the range of fraud risks it faces.
- 3 It is also important for the council to ensure that its overall policy framework for combating fraud continues to reflect best practice.

Risk Assessment

- 4 An assessment of possible fraud risks faced by the council is included at exempt Annex 1. This builds on the assessment completed for the first time last year and gives an indication of the susceptibility of each area to fraud along with planned action by the internal audit and counter fraud teams. This model will continue to be developed in future years as more

information becomes available and new techniques are developed.

Review of Counter Fraud Policies

- 5 The annual review of the council's counter fraud and corruption policy (annex 2) and fraud and corruption prosecution policy (annex 3) has recently been completed. While the policies remain broadly in line with best practice, a number of amendments are required. These include minor wording changes and amendments to job titles. They also include the following.
 - a) Counter Fraud and Corruption Policy:
 - Reference to the requirements of the Bribery Act (2010) – paragraph 2.1.
 - Clarification of the scope of the policy to include fraud affecting third parties where this also impacts on services provided by the council – paragraph 2.2.
 - Extension of expectations about adhering to proper standards to contractors' staff – paragraph 3.1.
 - b) Fraud and Corruption Prosecution Policy:
 - Clarification of the roles of Veritau and council staff for making recommendations and authorising prosecutions and sanctions – paragraphs 1.5 & 1.6.
 - Reflection of the changes to arrangements for considering standards issues, for councillors – paragraph 2.3.

Consultation

- 6 This report is part of the ongoing consultation with stakeholders on priorities for internal audit and counter fraud work.

Options

- 7 Not relevant for the purpose of the report.

Analysis

- 8 Not relevant for the purpose of the report.

Council Plan

- 9 The work of internal audit and counter fraud supports overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

- 10 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 11 The council will fail to comply with proper practice if counter fraud arrangements are not based on an appropriate assessment of risk, or if it fails to maintain up to date counter fraud and corruption policies and procedures.

Recommendations

- 12 Members are asked to;
- comment on the fraud risk assessment set out in Annex 1 and proposed counter fraud work

Reason

To ensure that scarce audit and counter fraud resources are used effectively.

- comment on the review of the council's counter fraud and corruption policy and fraud and corruption prosecution policy, and the changes proposed

Reason

To ensure counter fraud procedures and policies are up to date, as part of their responsibility for overseeing the council's overall governance framework.

Contact Details

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**Chief Officer Responsible for the
report:**

Keith Best
Assistant Director, Financial Services
Telephone: 01904 551745

**Report
Approved**



Date 1/2/12

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All ☐

For further information please contact the author of the report

Background Papers

None

Annexes

Annex 1 – Fraud Risk Assessment February 2012 (Exempt)
Annex 2 – Counter Fraud and Corruption Policy
Annex 3 – Fraud and Corruption Prosecution Policy

Document is Restricted

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CITY OF YORK COUNCIL
COUNTER FRAUD AND CORRUPTION POLICY

1 Introduction

- 1.1 All organisations are at increasing risk of fraud and corruption. It is estimated that total fraud in the UK amounts to approximately £30.5 billion per annum, of which £17.6 billion relates to the public sector. It is therefore a risk that the council cannot and should not ignore.
- 1.2 Any fraud committed against the council effectively constitutes a theft of taxpayers money. It is unlawful and deprives the council of resources which should be available to provide services to the public. By putting in place effective measures to counter the risk of fraud and corruption the council can reduce losses which impact on service delivery as a contribution to the achievement of overall council priorities.
- 1.3 This document sets out the council's policy in relation to fraud and corruption perpetrated against it, and its overall arrangements for preventing and detecting fraud. It forms part of the council's overall policy framework for combating fraud and corruption and should be read in conjunction with the constitution, the financial regulations, contract procedure rules, the fraud and corruption prosecution policy, the whistleblowing policy, disciplinary procedures, and the anti-money laundering guidance.

2 Definitions and Scope

- 2.1 For the purpose of this policy, the term fraud is used broadly to encompass:
 - acts which would fall under the definition in the Fraud Act 2006
 - anything which may be deemed fraudulent in accordance with the generally held view of fraud as causing loss or making a gain at the expense of someone by deception and dishonest means

Annex 2

- any act of bribery or corruption including specific offences covered by the Bribery Act (2010)~~(ie the giving or receipt of gifts with a view to the giver receiving a more favourable treatment than they would otherwise be entitled to)~~
- acts of theft
- any other irregularity which is to the detriment of the council whether financially or otherwise, or by which someone gains benefit they are not entitled to.

2.2 This policy does not cover fraud or corruption against third parties, ~~even where the council takes part in its investigation or prosecution~~except where there may be an impact on the service provided by the council (for example fraud committed against people in receipt of direct payments). In addition, it does not cover other acts – for example offences involving violence - which may affect the council, and which should be to be reported directly to the police.

3 Principles

- 3.1 The council will not tolerate fraud or corruption in the administration of its responsibilities, whether perpetrated by members, officers, customers of its services, third party organisations contracting with it to provide goods and/or services, or other agencies with which it has any business dealings. There is a basic expectation that members, employees, and all contractors' staff will act with integrity and with due regard to matters of probity and propriety, the requirement to act lawfully and comply with all rules, procedures and practices set out in legislation, the constitution, the council's policy framework, and all relevant professional and other codes of practice.
- 3.2 The council will seek to assess its exposure to risks of fraud and corruption. It will prioritise resources available to prevent and deter fraud in order to minimise this risk.
- 3.3 The council will consider any allegation or suspicion of fraud seriously, from whatever source, and if appropriate will undertake an investigation to confirm whether fraud has

Annex 2

occurred and determine the appropriate outcome. Any investigation will be proportionate. Due to its nature, the investigation of housing and council tax benefit fraud will be subject to prioritisation using formal risk assessment criteria. The council may refer any incident of suspected fraud to the police or other agency for investigation, if appropriate.

- 3.4 To act as a deterrent, the council will take action in all cases where fraud (or an attempt to commit fraud) is proved, in proportion to the act committed. This may include prosecution, application of internal disciplinary procedures, or any other action deemed appropriate to the offence (for example referral to a professional body). Prosecution decisions will be made in accordance with the fraud and corruption prosecution policy.
- 3.5 As a further deterrent, and to minimise losses, the council will attempt to recover any losses incurred through civil or legal action. In addition, the council will seek to apply any appropriate fines or penalties, and recover any costs incurred in investigating and prosecuting cases.

4 Responsibilities

- 4.1 Overall responsibility for ~~the approval of~~ this policy rests with the ~~Executive Cabinet~~ Member for Corporate Services on behalf of the council in accordance with the council's constitution.
- 4.2 The Audit and Governance Committee has a responsibility to provide advice to the council on issues arising out of fraud investigations and to report any remedial or preventative action that has or which ought to be taken by the council in relation to such matters. It also monitors the application of council policies on whistle-blowing and counter fraud & corruption and can consider any matter referred to it in accordance with the council's whistle-blowing policy and procedures.
- 4.3 The officer governance group has a responsibility for ensuring that the council has effective fraud and corruption procedures

Annex 2

embedded across the organisation that comply with best practice and good governance standards and requirements.

- 4.4 Veritau (who provide internal audit, counter fraud and information governance services to the council) is responsible for reviewing the council's counter fraud and corruption policies on a regular basis and for recommending any required changes to those policies. In addition, Veritau leads on fraud prevention and detection issues for the council and is responsible for investigating any suspected cases of fraud or corruption. The internal audit team carries out audit work to ensure that systems of control are operating effectively, which contributes to the reduction in opportunities for committing fraud. The Head of Internal Audit is required to report his/her professional opinion on the council's control environment to members of the Audit & Governance Committee on an annual basis in accordance with proper practice.
- 4.5 The Director of Customer and Business Support Services as chief financial officer is required to ensure the council has appropriate systems of control in place to prevent and detect fraud. All directors have a responsibility for preventing and detecting fraud within their service areas. This includes maintenance of effective systems of internal control and ensuring that any weaknesses identified through the work of internal audit or by other means are addressed promptly.
- 4.6 The Assistant Director Governance and ICT is the council's nominated officer for the purposes of the Money Laundering Regulations (2007), and has a statutory responsibility for reporting any issues referred in this capacity.
- 4.7 All staff have a general responsibility to be aware of the possibility of fraud and corruption, and to report any suspicions that they may have to Veritau. Where appropriate, staff may use the whistleblowing policy to raise concerns anonymously.
- 4.8 Officers within human resources have a responsibility to support service departments in undertaking any necessary

disciplinary process after consultation and initial investigation, where appropriate, by Veritau.

5 Overall Counter Fraud Arrangements

Introduction

- 5.1 The purpose of this section is to set out the council's overall framework for countering the risk of fraud and corruption. While the council aims to follow best practice in relation to counter fraud activity¹, it recognises that ~~there are areas for further development. This section therefore also sets out those areas of practice it wishes to develop further~~new and emerging fraud risks will require a dynamic approach to fraud prevention and detection.

Measurement

- 5.2 The council will ~~further develop systems for~~ assessing the potential risks and losses due to fraud and corruption (for example through its risk management arrangements), and will use these to prioritise counter fraud activity, and review the resources available to counter those risks. The review will include an assessment of actual levels of fraud² and the effectiveness of counter fraud activity in reducing losses. The outcome of this review will be reported to the Audit and Governance Committee on an annual basis as part of the audit and fraud planning cycle.

¹ For example the CIPFA Better Governance Forum *publication "Managing the Risk of Fraud – Actions to Counter Fraud and Corruption (the Red Book 2)"*

² All suspected fraud should be reported to Veritau. A record of all such information will be maintained on a confidential basis.

Culture

- 5.3 The council will promote a culture whereby all staff, members, service users, and contractors are aware that fraud or corruption in any form is unacceptable. To do this, it will:
- ensure that there are clear arrangements in place for reporting suspicions about potential fraud or corruption, whether that be by staff, council members, partners, stakeholders, contractors or members of the public;
 - investigate reported suspicions and where evidence of fraud or corruption is found will prosecute where appropriate and take any other action necessary in accordance with the financial regulations, contract procedure rules, fraud and corruption prosecution policy, disciplinary procedures, members code of conduct, or any relevant legislation or guidance;
 - ensure that the consequences of committing fraud and/or partaking in corrupt practices are widely publicised.

Prevention and Detection**Controls**

- 5.4 As part of its ongoing operating procedures, the council seeks to ensure that proper systems of internal control are in place. This includes controls to directly prevent and detect fraud, such as separation of duties and management review, along with other procedures such as vetting as part of recruitment processes and systems for declaration of interests and gifts and hospitality. The effectiveness of systems of control are monitored by directorates, and a formal report is made as part of the process for preparing the annual governance statement. The council maintains a system of internal audit to provide independent review of control systems on an ongoing basis, in accordance with a risk assessment.

Annex 2

- 5.5 Services will be encouraged to consider the risk of fraud as part of the council's risk management process. Any information on risks identified will be used to inform the annual review of counter fraud activity.

Proactive Work

- 5.6 The council will carry out targeted project work (for example data matching exercises) to identify fraud and corruption in known high risk areas. This work will be carried out by Veritau as part of its annual workplan. Work will be prioritised based on a risk assessment as part of the annual review of counter fraud activity. Work may include joint exercises with other agencies, including other local councils.
- 5.7 The council will take part in projects led by other agencies such as the DWP and Audit Commission to identify potential fraud. For example the National Fraud Initiative and HBMS Data Matching Service. Resources will be allocated to follow up all data matches as part of audit and fraud workplans. Veritau will work with service departments to ensure that they are aware of the need to include notices to service users stating that any data held may be subject to use for data matching purposes.

Relationships

- 5.8 The council has established relationships with a number of other agencies. It will continue to develop these relationships and develop new ones to further the prevention and detection of fraud. Organisations which the council will work with include:
- the police
 - the Audit Commission
 - the courts
 - the Department for Works and Pensions
 - other councils
 - the Office of Fair Trading
 - community groups

- 5.9 Veritau will work with council departments to ensure that systems for reporting and investigating suspected fraud and corruption are robust. Where appropriate, formal protocols will be developed setting out departments responsibilities (for example between Veritau and human resources).

Fraud Awareness Training

- 5.10 As part of its annual workplan, Veritau will provide targeted fraud awareness training to specific groups of staff, based on its annual risk assessment.

Investigation

- 5.11 All suspected cases of fraud, corruption, theft or other irregularity will be investigated. The nature of each investigation will depend on the circumstances of each case. Veritau will act as a first port of call for any suspected fraud and will provide advice on whether other agencies should be notified (eg the police). Veritau will determine the extent of the investigation to be carried out in consultation with service departments and human resources³. Where necessary, Veritau may refer cases directly to other agencies without consultation (for example the police or the Audit Commission) at the discretion of the Head of Internal Audit.
- 5.12 All staff involved in the investigation of fraud will be appropriately trained. They will be required to comply with any relevant legislation and codes of practice. For example the Police and Criminal Evidence Act (PACE), Regulation of Investigatory Powers Act (RIPA), the Data Protection Act, and the Criminal Procedures Investigations Act. Investigators will take into account the individual circumstances of anyone involved in an investigation and adjustments to procedure will be made where necessary to ensure that all parties are treated equitably (where it is appropriate and reasonable to do so).

³ For suspected housing benefit or council tax benefit fraud Veritau will determine the extent of investigation required based on a risk scoring system.

Annex 2

- 5.13 As part of the outcome of every investigation, a review of any weaknesses in control will be made and if necessary recommendations will be made to address any issues identified. These will be set out in a formal report to the managers of the service concerned, and will be followed up to ensure the issues are addressed.
- 5.14 The Head of Internal Audit will ensure that systems for investigating fraud are reviewed on an ongoing basis, to ensure that they remain up to date and comply with good practice.

Publicity

- 5.15 The council will publicise all successful prosecutions undertaken either by itself or by partner organisations, to act as a deterrent against future fraud.
- 5.16 In addition, ~~where appropriate, a~~ targeted ~~campaign of~~ publicity will be ~~undertaken each year~~used to raise the awareness of fraud to staff, members, the public, and other agencies. This will consist of both internal and external publicity and will aim to:
- raise awareness about potential fraud and ensure all stakeholders are alert to the possibilities of fraud
 - inform all stakeholders of the procedures to be followed if they have suspicions of fraud
 - ensure that all stakeholders are aware that the council will not tolerate fraud and the consequences of committing fraud against it.

Recovery of Monies

- 5.17 Where any loss has been incurred by the council or additional costs have been incurred as a result of fraud or corruption, the council will seek to recover these from the individual or organisation concerned. This will help to ensure that the financial impact of fraud on the council is minimised and act as a deterrent. As a further deterrent, the council will seek to levy

Annex 2

any appropriate fines or penalties where it is possible and desirable to do so.

5.18 Methods of recovery may include:

- recovery from assets held by the organisation or individual (using the Proceeds of Crime Act or any other relevant legislation)
- bankruptcy where appropriate
- recovery from future salary payments if an individual remains an employee of the council
- recovery of pension contributions from employees or members who are members of the North Yorkshire Pension Fund.

6 Monitoring & Review Arrangements

- 6.1 The arrangements set out in this policy document will be reviewed on an annual basis as part of the audit and fraud planning cycle and will include the fraud and corruption prosecution policy, and other related guidance. Veritau will work with other departments to ensure that other related guidance and policy (such as the whistleblowing policy) are reviewed on a regular basis and any amendments or necessary changes are reported to members for approval.

LAST REVIEWED AND UPDATED: ~~31-13 January 2011~~February 2012

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CITY OF YORK COUNCIL
FRAUD AND CORRUPTION PROSECUTION POLICY

1 Scope and Purpose

- 1.1 The fraud and corruption prosecution policy forms part of the council's overall counter-fraud and corruption strategy. The policy covers all acts, and/or attempted acts, of fraud or corruption committed by officers or members of the council, or committed by members of the public, or other organisations or their employees, against the council.
- 1.2 The policy sets out the circumstances in which the council will take legal action against the perpetrators of fraud or corruption. It also sets out the circumstances when it is appropriate to consider alternative courses of action such as offering a caution. The policy does not cover internal disciplinary procedures which are the subject of the council's separate disciplinary policy and procedures.
- 1.3 This policy should be read in conjunction with the council's constitution, financial regulations, contract procedure rules, the counter fraud and corruption policy, the whistleblowing policy and the council's disciplinary policy and procedures.
- 1.4 Housing and council tax benefit fraud is the most common type of fraudulent act committed against the council. The policy contains specific guidelines for determining the most appropriate course of action when fraud of this kind has been identified. Offences other than fraud and corruption (for example those relevant to the enforcement of regulations and/or the collection of taxes) are dealt with by the appropriate service departments under other policies and relying on specific legal powers.
- 1.5 During the course of fraud investigation cases, recommendations about prosecution or other appropriate courses of action will be made to the council by Veritau (the council's counter fraud service provider). Decisions about the action to be taken in response to these recommendations will be made by the Assistant Director, Financial Services or the Director of Customer and Business Support Services in consultation with legal services, and relevant service director(s) where appropriate.

- 1.6 Decisions about alternative sanctions in Housing and Council Tax Benefit cases (see below) will generally be made by appropriate officers within Veritau.

2 Principles

- 2.1 The council is committed to an effective anti-fraud and corruption strategy. The strategy is designed to encourage the prevention and detection of fraud and corruption. As part of the strategy the council is also committed to taking appropriate action against anyone believed to have attempted and/or committed a fraudulent or corrupt act against it. The council considers that those guilty of fraud or corruption must take responsibility for their actions before the courts.
- 2.2 The policy is designed to ensure that the council acts fairly and consistently when determining what action to take against the perpetrators of fraud or corruption.
- 2.3 Staff and members who are found to have committed fraud or corruption may be prosecuted in addition to such other action(s) that the council may decide to take, including disciplinary proceedings in the case of staff and referral to the relevant officer or body in the case of members. Any decision not to prosecute a member of staff for fraud and corruption does not preclude remedial action being taken by the relevant director(s) in accordance with the council's disciplinary procedures or other policies.
- 2.4 This Policy is also designed to be consistent with council policies on equalities. The council will be sensitive to the circumstances of each case and the nature of the crime when considering whether to prosecute or not.
- 2.5 The consistent application of the policy will provide a means for ensuring that those who have perpetrated fraud and corruption are appropriately penalised. It will also act as a meaningful deterrent to those who are contemplating committing fraud or corruption. The council recognises the deterrent value of good publicity and therefore information regarding successful prosecutions and sanctions will be made public.

- 2.6 Any decision taken by an authorised officer to prosecute an individual or to offer a formal sanction (HB/CTB cases only) will be recorded in writing. The reason for the decision being taken will also be recorded.
- 2.7 Irrespective of the action taken to prosecute the perpetrators of fraud and corruption, the council will take whatever steps necessary to recover any losses incurred, including taking action in the civil courts.

3 Prosecution

- 3.1 The policy is intended to ensure the successful prosecution of offenders in court. However, not every contravention of the law should be considered for prosecution. The council will weigh the seriousness of the offence (taking into account the harm done or the potential for harm arising from the offence) with other relevant factors, including the financial circumstances of the defendant, mitigating circumstances and other public interest criteria. All cases will be looked at individually and be considered on their own merit.
- 3.2 To consider a case for prosecution the council must be satisfied that two tests have been passed. Firstly, there must be sufficient evidence of guilt to ensure conviction. This is called the **evidential test**. Secondly, it must be in the public interest to proceed – the **public interest test**.
- 3.3 To pass the evidential test, the authorised officer must be satisfied that there is a realistic prospect of conviction based on the available evidence (that is, there must be sufficient admissible, substantial and reliable evidence to secure a conviction).
- 3.4 To pass the public interest test, the authorised officer will balance, carefully and fairly, the public interest criteria against the seriousness of the offence. The public interest criteria include;
- the likely sentence (if convicted);
 - any previous convictions and the conduct of the

defendant;

- whether there are grounds for believing the offence is likely to be repeated;
- the prevalence of the offence in the area;
- whether the offence was committed as a result of a genuine mistake or misunderstanding;
- any undue delay between the offence taking place and/or being detected and the date of the trial;
- the likely effect that a prosecution will have on the defendant;
- whether the defendant has put right the loss or harm caused.

3.5 It will generally be in the public interest to prosecute if one or more of the following factors applies, subject to any mitigating circumstances;

- the actual or potential loss to the council was substantial (and for benefit related fraud exceeds the thresholds set out in the financial guidelines which form part of this policy);
- the fraud has continued over a long period of time;
- the fraud was calculated and deliberate;
- the person has previously committed fraud against the council (even if prosecution did not result) and/or there has been a history of fraudulent activity;
- the person was in a position of trust (for example, a member of staff);
- there has been an abuse of position or privilege;
- the person has declined the offer of a caution or administrative penalty, or has withdrawn the offer to pay an administrative penalty (HB/CTB cases only);
- the case has arisen from a collusive employer or landlord investigation (HB/CTB cases only);
- the case has involved the use of false identities and/or false or forged documents (HB/CTB cases

only);

4 Mitigating Factors

- 4.1 The following mitigating factors will be taken into account when determining whether to prosecute;

Voluntary Disclosure

- 4.2 A voluntary disclosure occurs when an offender voluntarily reveals fraud about which the council is otherwise unaware. If this happens, then the fraud will be investigated but the offender will not be prosecuted unless in exceptional circumstances. However, any person colluding in the crime will still be prosecuted. A disclosure is not voluntary if the:-
- admission is not a complete disclosure of the fraud;
 - admission of the fraud is made only because discovery of the fraud is likely, (for example, the offender knows the council is already undertaking an investigation in this area and/or other counter fraud activity);
 - offender only admits the facts when challenged or questioned;
 - offender supplies the correct facts when making a claim to Legal Aid;
 - disclosure comes to light in some other way, for example, by the issue of a Housing Benefits review form (HB/CTB cases only).

Ill Health or Disability

- 4.3 Where the perpetrator (and/or their partner in HB/CTB cases) is suffering from prolonged ill health or has a serious disability or other incapacity then the offender will not normally be prosecuted. Evidence from a GP or other doctor will be requested if the condition is claimed to exist, unless it is obvious to the investigator. For HB/CTB cases it is also necessary to prove that the person understood the rules governing receipt of benefit and was aware that their action is

wrong. This may not be possible where, for instance, the offender has serious learning difficulties. However, simple ignorance of the law will not prevent prosecution.

Social Factors

- 4.4 A wide range of social factors may make a prosecution undesirable. The test is whether the court will consider the prosecution undesirable, and go on to reflect that in the sentence.

Exceptional Circumstances

- 4.5 In certain exceptional circumstances the council may decide not to prosecute an offender. Such circumstances include;
- the inability to complete the investigation within a reasonable period of time (even after requesting assistance from the police and the DWP);
 - the prosecution would not be in the interests of the council
 - circumstances beyond the control of the council make a prosecution unattainable.

5 Alternatives to Prosecution (HB/CTB cases only)

- 5.1 If a housing or council tax benefits case is considered strong enough for prosecution but there are mitigating circumstances which cast a doubt as to whether a prosecution is appropriate then the council may consider the offer of a sanction instead. The two sanctions available are;
- formal cautions, or;
 - administrative penalties.

Formal Cautions

- 5.2 A formal caution is a warning given in certain circumstances as an alternative to prosecution, to a person who has committed an offence. A formal caution is a serious matter and all cautions are recorded by the DWP. Where a person

offends again in the future then any previous cautions will influence the decision on whether to prosecute or not.

5.3 Subject to the thresholds set out in the financial guidelines below, a formal caution will normally be offered where all of the following apply;

- there is sufficient evidence to justify instituting criminal proceedings;
- the person has admitted the offence;
- it was a first offence, and;
- an administrative penalty is not considered to be appropriate.

Only in very exceptional circumstances will a further caution be offered for a second or subsequent offence of the same nature.

5.4 Cautions will be administered by the Head of Internal Audit, Audit and Fraud Manager, Fraud Team Leader, or a senior fraud investigator. If a caution is offered but not accepted then the council will usually consider the case for prosecution. In such cases the court will be informed that the defendant was offered a penalty but declined to accept it.

Administrative Penalties

5.5 Section 115A of the Social Security Administration Act 1992 as amended by Section 15 of the Social Security Administration (Fraud) Act 1997, permits an administrative penalty to be offered to claimants as an alternative to prosecution. The penalty is set at a rate of 30% of the total benefit overpayment. Once an administrative penalty is accepted, the claimant has 28 days to change their mind.

5.6 Subject to the thresholds set out in the financial guidelines below, an administrative penalty will normally be offered by the council in the following circumstances;

- the council believes that there is sufficient evidence to prosecute;

- it was a first offence or a previous offence was dealt with by way of a caution, and;
- in the opinion of the council, the circumstances of the case mean it is not overwhelmingly suitable for prosecution, and;
- the claimant has the means to repay both the overpayment and the penalty, and;
- there is a strong likelihood that both the overpayment and the penalty will be repaid.

5.7 It is important to note that the claimant does not need to have admitted the offence for an administrative penalty to be offered. Administrative penalties will be administered by the Head of Internal Audit, Audit and Fraud Manager, Fraud Team Leader, or a senior investigator. If an administrative penalty is not accepted or is withdrawn then the council will usually consider the case for prosecution. In such cases the court will be informed that the defendant was offered a penalty but declined to accept it.

6 Financial Guidelines (HB/CTB cases only)

6.1 Where the authorised officer considers that justice can be best served with a caution or administrative penalty where the overpayment is higher than the figures shown below then discretion may be applied. Equally, discretion may be applied where it is considered reasonable to prosecute but the overpayment is lower than the limit prescribed.

6.2 The following guidelines apply in helping to determine the appropriate action to take;

- A formal caution or an Administrative Penalty may be offered where the overpayment is under £2,000. The decision on which to offer will depend on the circumstances of the case and whether the offence has been admitted or not by the accused.
- If the overpayment is over £2,000 and it is considered to be in the public interest then prosecution proceedings will normally be instigated.

- The council will not normally consider prosecution or a formal sanction in cases where the total overpayment is less than £100 (unless there are particular circumstances which make this desirable) although the overpayment will still be recovered from the claimant.

6.3 Where the size of the overpayment is such that the council would normally prosecute but there are mitigating factors which make such a prosecution undesirable then a formal sanction may be offered instead.

6.4 Serious attempted fraud will also be considered for prosecution or sanction. The criteria for determining whether a prosecution is appropriate will be the potential seriousness of the fraud. Each case will be considered on its own merits and action will be taken as appropriate.

7 Proceeds of Crime Act 2002 (POCA)

7.1 In addition to the actions set out in this policy, the council reserves the right to refer all suitable cases for financial investigation with a view to applying to the courts for restraint and/or confiscation of identified assets. A restraint order will prevent a person from dealing with specific assets. A confiscation order enables the council to recover its losses from assets which are found to be the proceeds of crime.

8 Implementation Date

8.1 This revised policy is effective from 13 February 2012 and covers all decisions relating to prosecutions and sanctions after this date.

POLICY LAST REVIEWED AND UPDATED 13 February 2012



Audit and Governance Committee

13 February 2012

Report of the Assistant Director, Financial Services

Internal Audit Plan Consultation**Summary**

- 1 The purpose of the report is to seek members' views on the priorities for internal audit for 2012/13, to inform the preparation of the annual audit plan.

Background

- 2 In accordance with the CIPFA Code of Practice for Internal Audit (the Code of Practice), audit plans are prepared on the basis of a risk assessment process. The risk assessment methodology is designed to ensure that limited audit resources available are prioritised towards those systems and areas which are considered to be the most risky and/or which contribute the most to the achievement of the council's corporate priorities and objectives.
- 3 Consultation with members and with senior council officers is an essential part of the risk assessment process, to ensure that their views on the risks facing the organisation are taken into account.

2012/13 Audit Plan

- 4 Annex 1 shows the internal audit risk assessment for each area subject to audit. Areas are listed in descending order from high to low risk. Historically, audit activity has focussed on those areas listed as a high risk.
- 5 The council continues to experience significant financial pressures and major change across all council services. As noted last year, this increases risk in areas which historically have not been classed as a high risk (for example human

resources). And even where changes are not significant, reductions in resources may mean that services can no longer continue to operate controls to the extent that they have historically.

- 6 To reflect this, the intention is that we will continue to maintain the approach adopted last year in developing the plan. This will include a mix of traditional audits (for example in areas such as the main financial systems where the volume and value of transactions processed are so significant that regular audit is essential) and other reviews targeted towards areas of increased risk due to change. These audits will include (a) direct support to change projects, and audit of project arrangements, and (b) a change in focus for existing audits to reflect current issues for example the impact of reductions in resources on the operation of controls.
- 7 Members views are sought about whether:
 - a) the proposed approach to determining priorities for the 2012/13 audit plan, set out above, is reasonable
 - b) there are areas in the existing risk assessment (Annex 1) which should be a priority for review
 - c) there are any other areas which should be considered for audit in 2012/13.

Consultation

- 8 This report is part of the ongoing consultation with stakeholders on priorities for internal audit work.

Options

- 9 Not relevant for the purpose of the report.

Analysis

- 10 Not relevant for the purpose of the report.

Council Plan

- 11 The work of internal audit and counter fraud supports overall aims and priorities by promoting probity, integrity and honesty and by helping to make the council a more effective organisation.

Implications

12 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

13 The council will fail to comply with proper practice if audit plans are not based on an appropriate assessment of risk.

Recommendations

14 Members are asked to:

- Comment on the proposed approach to internal audit planning for 2012/13 and identify any specific areas which should be considered a priority for audit

Reason

To ensure that scarce audit resources are used effectively.

Contact Details

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Keith Best
Assistant Director, Financial
Services
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Report
Approved



Date 1/2/12

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

☐

For further information please contact the author of the report

Background Papers

None

Annexes

Annex 1 – Internal Audit Risk Assessment

Ref	Audit Area	Risk Rating
1	Financial Planning and Budget Setting	HIGH
2	Budgetary Control & Savings	HIGH
3	Ordering and Creditor Payments	HIGH
4	Business Continuity	HIGH
5	Payroll	HIGH
6	Procurement and Contract Management	HIGH
7	Efficiency and Value for Money	HIGH
8	Equalities	HIGH
9	Main Accounting System (Financial Ledger)	HIGH
10	Council Tax Benefits & Housing Benefits	HIGH
11	Asset Management	HIGH
12	Community Stadium	HIGH
13	Administration and Accommodation Review	HIGH
14	Libraries & Adult Education Project	HIGH
16	Project Management	HIGH
17	Council Tax & NNDR	HIGH
18	Housing Rents	HIGH
19	Performance Management	HIGH
20	Health & Safety	HIGH
21	Workforce Planning	HIGH
22	New Personnel Systems	HIGH
23	Partnership Arrangements	HIGH
24	Performance Indicators and Data Quality	HIGH
25	Recruitment	HIGH
26	Treasury Management & Prudential Code	HIGH
27	Debtors	HIGH
28	Cashiers and Income Management	HIGH
29	Nursery Education Grants	HIGH
30	Information Security	HIGH
31	Access York Project	HIGH
32	Public Health	HIGH
33	Environment and Sustainability	HIGH
34	VAT Accounting	HIGH
35	Waste PFI	HIGH
36	Schools Audits	HIGH
37	On street Parking & Car Parks	MEDIUM
38	General IT Controls	MEDIUM
39	Public Transport	MEDIUM
40	Fleet Services & Fleet Maintenance	MEDIUM
41	Risk Management	MEDIUM

Ref	Audit Area	Risk Rating
15	Contracting for Care	MEDIUM
42	Charging for Care	MEDIUM
43	Direct Payments	MEDIUM
44	Transport (Home to School, Social Services etc)	MEDIUM
45	Sickness Management	MEDIUM
46	Commissioning and Bought In Services / Supporting People	MEDIUM
47	Staff Registers of Interests and Gifts and Hospitality	MEDIUM
48	Procurement Cards	MEDIUM
49	Leisure Facilities	MEDIUM
50	Tenants Choice	MEDIUM
51	Education Contracts (PFI, Catering, Caretaking)	MEDIUM
52	Academies - Arrangements For Transfer	MEDIUM
53	Post 16 Funding	MEDIUM
54	Agency Staff	MEDIUM
55	Commercial Waste	MEDIUM
56	City of York Trading Company	MEDIUM
57	Housing Repairs and Maintenance	MEDIUM
58	IT Asset Management	MEDIUM
59	IT Service Desk / Fault Management	MEDIUM
60	Concessionary Travel	MEDIUM
61	Stores and Purchasing (CANS)	MEDIUM
62	Capital programme	MEDIUM
63	EPH's, Special Sheltered Housing and Sheltered Housing.	MEDIUM
64	New Housing Funding Arrangements	MEDIUM
65	Waste Operations - Disposal	MEDIUM
66	Building Repairs and Maintenance	MEDIUM
67	Behaviour Support (including Exclusions)	MEDIUM
68	Individual School Budgets	MEDIUM
69	Out of City Placements	MEDIUM
70	Residential and Nursing Home Costs	MEDIUM
71	Travel and Subsistence	MEDIUM
72	Handling Complaints	MEDIUM
73	Members Allowances	MEDIUM
74	Information Governance	MEDIUM
75	Highways Regulation	MEDIUM
76	Waste Operations - Refuse Collection & Recycling	MEDIUM
77	Mental Health Services	MEDIUM
78	Licensing	MEDIUM
79	Early Years and Childcare Service	MEDIUM
80	Construction Industry Scheme	MEDIUM

Ref	Audit Area	Risk Rating
81	Section 106 agreements	MEDIUM
82	Future Prospects	MEDIUM
83	Food Safety, environmental health, trading standards and other regulatory	MEDIUM
84	Children Leaving Care	MEDIUM
85	Disciplinary Procedures	MEDIUM
86	Engineering Consultancy	MEDIUM
87	Neighbourhood Pride Service	MEDIUM
88	Libraries	MEDIUM
89	Choice Based Lettings / Housing Allocations	MEDIUM
90	Youth Services	MEDIUM
91	Adults Respite, Employment & Day Services	MEDIUM
92	IT Business Continuity	MEDIUM
93	Referrals and Care Assessments (Adults)	MEDIUM
94	Referrals and Assessments (Children's Services)	MEDIUM
95	Insurance	MEDIUM
96	Development Control	MEDIUM
97	Building Control	MEDIUM
98	IT System Development & Change Management	MEDIUM
99	Civil Engineering	MEDIUM
100	Facilities Management	MEDIUM
101	Crematoria and Cemeteries	MEDIUM
102	Neighbourhood Management Unit (including Ward Committees)	MEDIUM
103	Right to Buy	MEDIUM
104	Integrated Children's Centres	MEDIUM
105	Foster Carers and Adoption Allowances	MEDIUM
106	Cleaning (Buildings, Schools, Voids)	MEDIUM
107	Community Equipment and Loans Store	MEDIUM
108	Adult and Community Education	MEDIUM
109	Special Educational Needs	MEDIUM
110	Children's Residential and Respite Accommodation	MEDIUM
111	Family Support	MEDIUM
112	Property Income and Lease Management	MEDIUM
113	Pool Cars	MEDIUM
114	Legal Services and Coroner	MEDIUM
115	City Development (LDF-Strategic Development)	MEDIUM
116	Education Access Service	MEDIUM
117	Telecommunications	MEDIUM
118	Economic Development Unit	MEDIUM
119	Education Development Service	MEDIUM
120	Staff Parking	LOW

Ref	Audit Area	Risk Rating
121	Children's Services Administration Sites	LOW
122	Emergency Planning	LOW
123	CANS Job Costing	LOW
124	Open spaces, park and play areas, pitches, courts & bowls	LOW
125	Performance Arts	LOW
126	Blue Badge Scheme	LOW
127	Recoupment	LOW
128	Children with Disabilities	LOW
129	Local Land Charges	LOW
130	Arts and Entertainment	LOW
131	Grants & Adaptations (Private Sector Housing Renewal & DFGs)	LOW
132	York Training Centre	LOW
133	Electoral Services, Member support, Democracy support, Members interes	LOW
134	Registrars	LOW
135	Marketing & Communications	LOW
136	Discretionary rate relief	LOW
137	Car Loans	LOW
138	Street Environment Service	LOW
139	Homelessness - Travellers	LOW
140	Mortgages	LOW
141	Lord Mayoralty	LOW
142	Heritage Properties	LOW
143	Delayed Discharges	LOW
144	Pooled Budgets	LOW

Note

The annual plan will also contain allocations to cover a number of mandatory and contingency areas including support & advice and follow up of agreed actions.



Audit and Governance Committee

13 February 2012

Report of the Assistant Director, Financial Services

Information Governance Strategy**Summary**

- 1 The purpose of the report is to inform Members about the Information Governance Strategy developed by the council's Corporate Information Governance Group (CIGG) and proposed action to strengthen information governance arrangements.

Background

- 2 Information is a key asset which enables the council to deliver high quality services. However, there are responsibilities in maintaining such information and significant risks if proper standards and procedures are not adhered to. This paper summarises the responsibilities and risks, and the strategy the council has adopted to ensure robust information governance arrangements are developed.

Responsibilities & Risks

- 3 Recent years have seen an increased volume of legislation affecting public sector use and maintenance of information, including the Freedom of Information Act and the Data Protection Act. Current government initiatives are also aimed at encouraging public access to data held by public bodies and this is likely to increase the exposure of the council if its information governance systems fail to meet required standards.

Data Breaches

- 4 In the last year several local authorities have been fined by the Information Commissioner following breaches of the Data Protection Act. Some of the high profile cases include:
- Midlothian Council fined £140,000 for disclosing sensitive personal data relating to children and their carers to the wrong recipients on five separate occasions.
 - Powys County Council fined £130,000 for a serious breach of the Data Protection Act after the details of a child protection case were sent to the wrong recipient.
 - North Somerset Council fined £60,000 when a council employee sent five emails, two of which contained highly sensitive and confidential information about a child's serious case review, to the wrong NHS employee.
 - Worcestershire County Council fined £80,000 for an incident where a member of staff emailed highly sensitive personal information about a large number of vulnerable people to 23 unintended recipients.
 - Surrey County Council fined £120,000 after sensitive personal information was emailed to the wrong recipients on three separate occasions.
 - Ealing Council fined £80,000 following the loss of an unencrypted laptop which contained personal information. Ealing Council breached the Data Protection Act by issuing an unencrypted laptop to a member of staff in breach of its own policies.
 - Hounslow Council fined £70,000 following the loss of an unencrypted laptop which contained personal information. Hounslow Council breached the Act by failing to have a written contract in place with Ealing Council. Hounslow Council also did not monitor Ealing Council's procedures for operating the service securely.
- 5 In April last year, City of York Council was required to sign an undertaking by the Information Commissioner following the inappropriate disclosure of an individual's personal data. This occurred as a result of information being erroneously included

with documentation sent to an unrelated third party. While this breach did not result in a fine, it is likely that any further serious breach would.

- 6 Based on fines levied by the Information Commissioner so far, there is a pattern of escalating levels of fines, particularly where further breaches are identified following the signing of an undertaking. The maximum level of fine which the Information Commissioner can impose is currently £500,000, however if current EU proposals are implemented, this could rise to 5% of turnover.

Strategy

- 7 A copy of the information governance strategy is attached at Annex 1. The strategy is based on a framework for information governance developed by the Cabinet Office. The framework defines five levels of maturity for information governance arrangements. Achievement at level one should be sufficient to ensure the council meets legal requirements. An action plan has been drawn up to ensure the council improves procedures where necessary to meet this level. It is intended to build on this over a number of years to meet higher levels of the framework. Details of initial actions required are set out in table 1 below.

Table 1: Action to meet level 1 of Information Maturity Model

Action	Current Position
Review the role of the Corporate Information Governance Group (CIGG) and re-launch	Under review by the CIGG
Members of CIGG to attend training	Most members attended the joint training session with NYCC members in late 2011.
New starters to CYC to have induction training covering Data Security	Specific training is currently covered as part of Directorate induction/. Generic data security training in draft.

Action	Current Position
Promote data security awareness across the council using both Directorate communications and Colin	To be rolled out through Colin and a series of “shout” communications being drafted.
Business Continuity Plans to be reviewed following the move to the new HQ	Encrypted laptops are being introduced and ICT will develop new BCPs in the period leading up to the move
Review data sharing policy	Individual Directorates have their own arrangements. Veritau’s Information Governance Team (IGT) will discuss individual arrangements and develop a benchmark
Complete Information Asset Registers for each Directorate	In progress. IGT to work with Directorates to identify and record their information assets.
Develop a document retention and destruction policy	Retention requirements will be identified as part of the Information Asset review.
Data security policies to be developed to guide home workers and staff hot desking	Currently under review

Consultation

- 8 Not relevant for the purpose of the report.

Options

- 9 Not relevant for the purpose of the report.

Analysis

- 10 Not relevant for the purpose of the report.

Council Plan

- 11 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything it does.

Implications

- 12 There are no implications to this report in relation to:

- **Finance**
- **Human Resources (HR)**
- **Equalities**
- **Legal**
- **Crime and Disorder**
- **Information Technology (IT)**
- **Property**

Risk Management Assessment

- 13 The council will fail to properly comply with the undertakings given to the Information Commissioner in April 2011 and will be exposed to the risk of a significant financial penalty should a further data security breach occur. In addition, a further breach of sensitive data could undermine public faith in the council's ability to deliver services to the public.

Recommendation

- 14 Members are asked to;
- note the strategy adopted to improve information governance arrangements within the council, and the action being taken to achieve level 1 of the Information Assurance Model.

Reason

As part of the committee's responsibility to consider reports dealing with governance matters.

Contact Details

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Chief Officer Responsible for the report:

Keith Best
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Report
Approved



Date 31/01/12

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

None

Annexes

Annex 1 – Information Governance High level Strategy



INFORMATION GOVERNANCE

HIGH LEVEL STRATEGY

APRIL 2011 – MARCH 2021

Introduction

The information held by the City of York Council (CYC) is a key asset. Without accurate and reliable information CYC will not be able to deliver high quality services to the public. It therefore follows that this asset must be:

- up to date and accurate;
- available to those who need to access that data; and
- kept in an appropriately secure manner to maintain its integrity and confidentiality

Recent years have seen an increased volume of legislation affecting public sector use and maintenance of information, including the Freedom of Information Act and the Data Protection Act. Current government initiatives are also aimed at encouraging public access to data held by public bodies and this is likely to increase the exposure of CYC should its Information Governance systems fail to meet laid down standards.

Cabinet Office issued guidance on the implementation of Information Assurance in May 2010 and this forms the basis of this strategy. In addition, CYC has given a number of undertakings to the Information Commissioner following an information security breach at the council. This strategy creates a framework to implement both the Cabinet Office requirements and the undertakings made to the Information Commissioner in a way which accords with CYC organisational culture.

Information Assurance Requirements

Cabinet Office defines 5 levels of maturity, each building on the earlier level. These are:

- **Level 1 - Initial:** The organisation is aware of legal requirements and has policies in place to guide improvement
- **Level 2 - Established:** Processes are established across the council and its delivery partners
- **Level 3 – Business Enabled:** All critical areas subject to a robust information governance regime
- **Level 4 – Quantitatively Managed:** Whole business has embrace information assurance.
- **Level 5 – Optimised:** Full integration of Information Assurance in all aspects of the business, all levels of management and IA used as a business enabler.

Strategic Approach

Movement to level 5 at this stage would be costly, traumatic and unnecessary. However, the majority of mandatory measures are built in to level 1 and, at this stage level 1 should satisfy the needs of CYC. In the coming years pressure to move along the maturity model is likely to increase and the strategy thus needs to include a commitment to move along the maturity axis.

This strategy is intended to bring CYC to level 1 within the next 2 years, with a long term ambition to reach level 5 within the next 10 years. Achievement of each stage will be supported by a specific plan which will be built upon the achievements of having achieved the previous level.

Measures to achieve level 1 need to dovetail with other initiatives within CYC, in particular the move to a single HQ building and introduction of EDRMS. Indeed many aspects of effective information governance are pre-requisites if the HQ move and EDRMS are to be introduced successfully

The intention is to progress along the maturity model in accordance with the following indicative timescale:

1. Level 1 – by March 2014
2. Level 2 – by March 2017
3. Level 3 – by March 2018
4. Level 4 – by March 2020
5. Level 5 – by March 2022

It should be noted that this is an indicative timescale. As each level is achieved, the Corporate Information Governance Group will re-evaluate the timetable and whether or not further progression is required to meet the needs of CYC.

Implementation of Level 1

There are 3 main stages to implementation of level 1:

- Embedding Information Risk Management within the culture of CYC, including introduction of effective procedures and agreement with external stakeholders ;
- Implementing best practice in terms of Information Assurance (within CYC and its partners), systematic monitoring to ensure breaches are detected and appropriately dealt with; and
- Effective compliance, both within CYC and its partners/3rd party suppliers. This also includes independent assurance to the SIRO that compliance processes are working effectively

A high level plan to achieve level 1 is attached as an appendix. Each high level action point is supported by a more detailed list of actions required to meet the requirements laid down by the Maturity Model. In addition, an Information Governance framework document will be developed which will include key information required by staff to carry out their information governance responsibilities.

Progress Reporting

It is the intention that progress against each of the high level action points will be reported to CIGG at each meeting. Progress will be reported using a system of colour coding as follows:

- Green – action point achieved
- Green/Amber – steady progress being made towards achievement and target likely to be met
- Amber – delays or other problems being experienced. Risk that the target will not be achieved
- Amber/Red – significant delays or problems. Target unlikely to be achieved unless significant urgent action is taken
- Red – target will not be met.



Audit and Governance Committee13th February 2012

Report of the Assistant Director, Governance and ICT

Whistleblowing Policy and Procedures**Summary**

- 1 This report shares with Members the latest draft of a revised whistleblowing policy and procedures for the Council.

Background

- 2 Good governance requires organisations to take malpractice seriously and to ensure that staff and others have adequate means to raise concerns about such malpractice. The Council has a whistleblowing policy which sets out the Council's commitment to these principles and describes the legal protection available to those who raise matters of concern.
- 3 It is good practice to review the whistleblowing arrangements from time to time and such a review has recently been undertaken led by the Officer Governance Group. As a result of that review, changes have been proposed to the arrangements. These include an overall simplification of the current procedures by identifying a single point of contact for most whistleblowing. In addition the arrangements are proposed to be set out in one document rather than the three currently used.
- 4 The latest draft of the new arrangements is contained in the annex to this report.

Consultation

- 5 The Standards Committee and the trades unions have been consulted on the proposals and the current draft reflects their comments.

Options

- 6 The Committee may express support for the current proposals or suggest amendments or additions to the draft arrangements.

Analysis

- 7 Not relevant for the purpose of the report.

Corporate Priorities

- 8 Confident and collaborative organisations welcome feedback and want their employees to feel comfortable in raising concerns. This report supports that objective.

Implications

- 9 **Legal** – the Public Interest Disclosure Act 1998 protects employees who make “protected disclosures”. The proposed arrangements ensure that potential whistleblowers know how to raise matters of concern in a proper way which protects them and allows the Council to address any issues.
- 10 There are no other specific implications which need to be identified.

Risk Management Assessment

- 11 The Council could suffer reputational and other damage if malpractice goes on undiscovered. The Council could also suffer reputational damage if disclosures are made in an inappropriate way.

Recommendation

- 12 Members are asked to:
 - (a) Support the draft whistleblowing arrangements contained in the annex to this report.

Reason

To confirm the Committee’s support for a key aspect of the Council’s governance arrangements’

Contact Details

**Author and Chief Officer
Responsible for the report:**

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Telephone: 01904 551004

**Report
Approved**



Date 23/1/12
e

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

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For further information please contact the author of the report

Background Papers

None

Annexes

Draft Whistleblowing arrangements'

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CITY OF YORK COUNCIL

WHISTLEBLOWING POLICY and PROCEDURES

1. INTRODUCTION

1.1 The City of York Council is proud of its track record of probity and high ethical standards. However, we are not complacent and we recognise that malpractice can occur. Any of us at one time or another may have concerns about what is happening at work. Most concerns are easily resolved. However, it might be more difficult to know what to do if the concern related to one of the following: -

- conduct which is an offence or a breach of the law,
- disclosures related to miscarriages of justice,
- health and safety risks, including risks to the public as well as other employees
- the abuse of a vulnerable person
- damage to the environment
- the unauthorised use of public funds
- misreporting of performance information
- possible fraud and corruption
- other unethical conduct

1.2 You may be worried about raising such issues yourself, perhaps feeling its none of your business or that it's only a suspicion. You may feel that raising the matter would be disloyal to colleagues, managers or to the organisation. You may decide to say something but find that you have spoken to the wrong person, or raised the issue in the wrong way and are not sure what to do next.

1.3 The Council wants you to feel able to raise your concerns about such malpractice at an early stage and in the right way. We would rather that you raised the matter when it is just a concern rather than wait for proof. Staffs working in children's homes have a legal duty to report concerns about the welfare or safety of children accommodated there and following this policy would meet that duty.

- 1.4 This Whistle-blowing Policy is primarily for concerns where the interests of others or the organisation itself are at risk. The kinds of issues described in paragraph 1.1 are obvious examples. If your concerns are about your own employment position though then it is more likely that the Grievance or the Prevention of Bullying, Harassment and Discrimination at Work Procedure should be used. You can get this from your manager, from Human Resources or the Council's intranet. Sometimes your concern may have elements of both. For example if you were being told to drive for an excessive number of hours this would affect both you and the wider community. We would prefer you to raise such concerns rather than worry about the appropriate procedure.

If in doubt-raise it!

2. OUR ASSURANCES TO YOU

2.1 Your safety

The Council are committed to this policy. If you raise a genuine concern under this policy, you will not be at risk of losing your job or suffering any form of retribution as a result. Not only is the Council committed to this but you also have legal protection under the Public Interest Disclosure Act 1998. Providing you are acting in good faith, it does not matter if you are mistaken. Of course we do not extend this assurance to someone who maliciously raises a matter they know is untrue. If you make an allegation, frivolously or for personal gain, disciplinary action may be taken against you.

2.2 Your confidence

We will not tolerate the harassment or victimisation of anyone raising a genuine concern. Disciplinary action may be taken against those who victimise a person reporting a concern.

We hope that you will feel able to raise concerns openly as this will make it much easier to resolve any issues. We also know that others may well try to deduce the source of any complaint. However we recognise that you may nonetheless want to raise a concern in confidence under this policy. If you ask us to protect your identity by keeping your confidence, we will not normally disclose it without your consent. If the situation arises where we are not able to resolve the concern without revealing your identity (for

instance because your evidence is needed in court) we will discuss with you whether and how we can proceed. Despite your request for confidentiality, there may be circumstances therefore, where the Council must disclose your identity.

Anonymous complaints

- 2.3 Remember that if you do not tell us who you are, it will be much more difficult for us to look into the matter or to protect your position or to give you feedback. Accordingly, while we will consider anonymous reports, this policy is not well suited to concerns raised anonymously.

3. HOW WE WILL HANDLE THE MATTER

- 3.1 Once you have told us of your concern, we will look into it to assess initially what action should be taken. This may involve an internal inquiry or a more formal investigation. We will tell you who is handling the matter, how you can contact them and whether your further assistance may be needed. If you request it, we will write to you summarising your concern and setting out how we propose to handle it.
- 3.2 When you raise your concern you may be asked how you think the matter might best be resolved. If you do have any personal interest in the matter, we ask that you tell us at the outset. If your concern falls more properly within another policy we will tell you.
- 3.3 While the purpose of this policy is to enable us to investigate possible malpractice and take appropriate steps to deal with it, we will give you as much feedback as we properly can. If requested, we will confirm our response to you in writing. Please note, however, that we may not be able to tell you the precise action we take where this would infringe a duty of confidence owed by us to someone else.

4. HOW TO RAISE A CONCERN

- 4.1 Concerns may be raised orally or in writing. Whether a written or oral report is made it is important that relevant information is provided covering:-

- your name and a contact point. As referred to above it will be more difficult for the Council to pursue issues if concerns have been expressed anonymously.
- the background and history of the concern (giving relevant dates and names and positions of those who may have contributed to your concern.
- the reason why you are particularly concerned about the situation.

4.2 You may invite your trade union, professional association representative or a friend to be present during any meetings or interviews in connection with the concerns you have raised.

5. HOW TO REPORT A CONCERN INTERNALLY

5.1 Step One

If you have a concern about malpractice, we hope you will feel able to raise it first with your line manager or, if not, with your Director or Assistant Director. For school based staff your head of department, headteacher *or Chair of Governors*] would be your normal first port of call although the Director of Children's Services or his Assistant Directors would be alternative contacts for you.

5.2 The person receiving your disclosure will consider the nature of your concerns and decide on the most appropriate course of action.

5.3 Step Two,

If you feel unable to raise the matter with your line manager or Director, for whatever reason, or if you remain concerned having done so, please raise the matter with the Head of Internal Audit, Max Thomas. As Internal Audit operates at arms length from the Council as part of a separate company, Veritau, you can be assured that Max will act independently.

5.4 Step Three

If the above channels have been followed, and either you or your line manager/Director still have concerns, or if you or your line

manager/Director feel that the matter is so serious that you cannot discuss it with any of the above, please contact either the Director of Customer of Business Support Services, Ian Floyd or the Monitoring Officer, Andy Docherty. A complaint which reaches this level will normally be reported to the Officer Governance Group who have the responsibility to ensure good governance in the Council and report directly to the Council's Audit and Governance Committee.

6. HOW TO REPORT A CONCERN EXTERNALLY

- 6.1 While we hope this policy gives you the reassurance you need to raise matters internally, we would rather you raised a matter with the appropriate regulator than not at all. Provided you are acting in good faith and you have evidence to back up your concern, you can also contact:

Audit Commission for England and Wales
Tel 020 7828 1212
www.audit.commission.gov.uk

Public interest disclosure line 0845 0522 646

Commission for Social Care Inspection
Tel 0845 015 0120
www.csci.org.uk

Health and Safety Executive
Tel 08701 545500
www.hse.gov.uk

Public Concern at Work
Tel 020 7404 6609
www.pcaw.co.uk

Ofsted
Tel: 0300 123 3155
E-mail: <mailto:whistleblowing@ofsted.gov.uk>
www.ofsted.gov.uk

7. INDEPENDENT ADVICE

- 7.1 If you are unsure whether to use this policy or you want independent advice at any stage, you may contact:
- if applicable, your union; or
 - the independent charity Public Concern at Work on 020 7404 6609. Their lawyers can give you free confidential advice at any stage about how to raise a concern about serious malpractice at work.

8. SCOPE OF POLICY

- 8.1 The Policy applies to all employees of the Council and other people working for the Council such as agency staff and consultants. Elected Members and School Governors may also raise concerns through this policy.
- 8.2 It is possible that contractors who work for the Council may come across matters which cause them concern and which relate to the actions of the Council or its employees. Contractors are invited to follow the procedures set out in this policy and are assured that they will not suffer any form of retribution for having raised a genuine concern, even if it proves to be unfounded. It may be that an employee of a contractor has concerns relating to its employer's actions while engaged on Council business. The Council's standard contracts require contractors to have adequate whistleblowing arrangements in place or to permit its employees to use the Council's arrangements. Employees of contractors therefore have equivalent protection to that afford Council employees.
- 8.3 These procedures are in addition to the Council's Complaints Procedures and other specifically laid down statutory reporting procedures applying to some services. If the concern relates to an elected Member, this may involve a potential breach of the Members' Code of Conduct which may result in a referral to the Council's Standards Committee and this in turn could lead to either internal or external investigation.
- 8.4 This policy has been discussed with staff representatives and has their support.

9. THE RESPONSIBLE OFFICER

- 9.1 The Council's Monitoring Officer has overall responsibility for the maintenance and operation of this policy. That officer maintains a record of concerns raised and the outcomes and will report as necessary to the Audit and Governance Committee and the Council. The recording and reporting procedure will involve liaison with the officers specified in Section 5 above and will be in a form which ensures your confidentiality, subject to the discretion of the Council to waive confidentiality as stated in section 2.2 above.

10. IF YOU ARE DISSATISFIED

- 10.1 This policy is intended to provide you with an avenue within the Council to raise concerns. While we cannot guarantee that we will respond to all matters in the way that you might wish, we will try to handle the matter fairly and properly. By using this policy you will help us to achieve this. The Council hopes you will be satisfied with any action taken. If you are not, and if you feel it is right to take the matter outside the Council, the following are possible contact points:-

- your local Citizens Advice Bureau
- relevant professional bodies or regulatory organisations
- the Ombudsman

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Audit and Governance Committee13th February 2012

Report of the Assistant Director, Governance and ICT

Constitutional Changes**Summary**

- 1 This report seeks Members' support to a number of changes to the Constitution.

Cabinet Member Decision Sessions

2. It is recommended that the current practice of holding formal meetings at which individual Cabinet members make decisions is ceased. It is most unusual and possibly unique to York to hold such meetings. They are time consuming to administer. Abolishing them would save roughly 20% of a Democracy Officer's time and up to £5000 in printing costs. The alternative is for Member decisions to be taken in routine meetings with Chief Officers thus also saving Chief Officer and Member time.
3. Clearly there could be concern that it might be suggested that this could lead to "behind closed doors decision making". However, most of these meetings have little public interest and are concluded within a matter of minutes. There would still be a requirement to publish the decisions and to allow call in. York already exceeds legal requirements by including decisions proposed to be taken at these meetings in the forward plan and by publishing the decisions on the internet.
4. It is recognised that there are some decisions which do attract public interest. Cabinet members or the Leader may well decide that issues which have attracted substantial interest should be determined by the full Cabinet rather than through an individual decision session. Alternatively, Cabinet

members will retain discretion to ask for a public decision making meeting to be organised.

Member Champions

5. The Constitution recognises seven specific Champions' roles and suggests that the Council may add to them. The role of Champions, as defined in the Constitution, is to promote the strategic issues affecting their area, to engage with officers and partners, to co-ordinate consultation on policy development and to challenge the Council.
6. It is widely accepted that the Champions' role has not been fully effective. There are differing views as to why that is. There is though plainly considerable cross over between the functions of the relevant Cabinet members and that of the Champions. Arguably having Champions is a source of confusion as to where responsibility rests.
7. So far as young people are concerned there have been other developments such as the establishment of the Youth Council and it is clear that young people are willing to express their own views without needing a champion to advocate for them. In respect of older people, while there is no legal requirement to have a Champion, Department of Health Guidance recognises the role of various older people's champions including: "An **elected council member** who leads for older people across their council". This seems to describe the Cabinet Member for Health, Housing & Adult Social Services.
8. No Champions were appointed at the last Annual Meeting and it is now recommended that the constitutional recognition of the role be removed. Of course this will not prevent Members deciding to champion particular issues either in their individual roles or through the scrutiny process.

Merger of Scrutiny Committee

9. Towards the end of the previous Municipal year, consideration was given to merging the Scrutiny Management Committee with the Effective Organisation Overview and Scrutiny Committee, as there was seen to be some overlap between their functions. Over the preceding two years there had also been a pattern of meetings being cancelled due to lack of

business. Although merger was not proceeded with at the time, it was agreed that the issue should be reconsidered in the current year. The case for merger seems as strong as ever with SMC having cancelled one of its three meetings this year and having had a very manageable agenda for the two which were held. It is recommended that merger proceed from the next Municipal year. The merged Committee would also take on the call in responsibilities.

Abolition of Cabinet Working Groups

10. The use of working groups to advise the Cabinet is a matter for them and does not require a decision from this Committee. However, to ensure the Committee has a full picture of other changes which are being proposed it would be wrong not to highlight the fact that there is currently a proposal that the Mansion House Advisory Group and Young People's Working Group no longer meet. The former completed its main task of supporting the development of a business plan for the Mansion House during last year and has not met again. The abolition of the group does not mean that former Lord Mayors' input will not be appreciated in decision making around the Civic function, it simply does away with a formal meeting to give that input.
11. There has been strong advice from Officers in ACE that there are now other forums which provide young people with a better mechanism for engaging with the Council than the Young People's Working Group.

Establishment of a Corporate Parenting Board

12. A Corporate Parenting Board has recently been established on an informal basis. The role of the Board is to raise awareness of the Council's corporate parenting responsibilities amongst the Cabinet, individual Councillors and Officers and, in particular to monitor delivery of the "Pledge for Children in Care" which was launched in February 2011. It is suggested that this group should be recognised as having direct access to both Council and the Cabinet. Appointments would be formally made at each annual meeting and would include the Cabinet member, members of the Adoption and Fostering Panel, members who visit children's

homes and members who sit on Show Me That I Matter Panel.

Policy Framework

13. Legally some Council plans have to be adopted by Council, and guidance which accompanied the 2000 Act recommended others. Cabinet decision making has to be made within this overarching policy framework. York went further than this and includes the HR strategy, the Procurement Strategy and the Risk Management Strategy within that framework. It is debatable whether a requirement for these to be adopted by Council adds value to the framework for decision making provided for by the Council Plan or whether it is just an additional level of bureaucracy. It is recommended that they be removed from the Constitution.

HR and ICT Procedure Rules

14. It is mandatory for Constitutions to include standing orders relating to staff appointments and dismissals and York's does so. In addition, the Constitution contains separate HR procedural rules. This is unusual. The rules are not a complete description of all the Council's HR Rules. All Councils have a range of HR policies adopted locally following consultation with the Trades Unions. York has these as well. There is an unnecessary risk that the two might not be consistent.
15. ICT procedure rules are not normally contained within Constitutions. Large parts of the current rules no longer reflect the organisation of the Council. Removing the existing rules will not affect controls within the Council.

Officer decision log

16. The Constitution currently requires decisions by Officers to be recorded in the officer decision log. This requirement is not met, has never been met and cannot possibly be met without creating a cottage industry in recording. The current log contains ten decisions between November and January (eight relating to highways issues). In the previous three month period it only contained four. In reality many thousands of

decisions will have been taken. It seems wrong to have a constitutional provision which cannot be complied with and it is therefore recommended that the provision be removed. However, it is recognised that the log may provide an information source for Members and it may be appropriate for the log itself to remain available as a means of making information available.

Pre decision call in

17. Unlike post decision call in this is not a legal requirement but a quirk of the York system. Such call ins are rare but when they have occurred it has been usual for the call in meeting to take place after the original due date for a decision. The decision session has gone ahead anyway and a “provisional” decision been reached. It is not really clear what practical benefit this process delivers. It is recommended that the practice be discontinued.

Consultation

18. The proposals have not been the subject of public consultation but are coming to this Committee for consultation with Members.

Options

19. The Committee may express support for the current proposals or suggest amendments or additions to the draft arrangements.

Corporate Priorities

20. Having an effective Constitution supports the Council to become a confident and collaborative organisation.

Implications

21. There are no other specific implications which need to be identified.

Risk Management Assessment

22. There are no specific risks which need to be identified.

Recommendation

Members are asked

- (a) To refer this report to Council
- (b) To recommend that Council:
 - (i) Agree to remove references to Cabinet Member decision sessions from the Constitution
 - (ii) Remove references to Member Champions from the Constitution
 - (iii) Merge the terms of reference for the Effective Organisation Overview and Scrutiny Committee and the Scrutiny Management Committee from the start of the next Municipal year.
 - (iv) Note the abolition of the Mansion House Advisory Group and the Young People's Working Group
 - (v) Welcome the establishment of a Corporate Parenting Board and to agree that membership should be formalised at each annual meeting.
 - (vi) Agree that the procurement strategy, the HR strategy and the risk management strategy no longer be treated as part of the Council's policy framework
 - (vi) Agree to the removal of the HR procedure Rules and the ICT procedure Rules from the Constitution
 - (vii) Remove the requirement for Officer decisions to be recorded within the Officer decision log
 - (viii) Remove the provisions for pre decision call in
- (c) Ask the Monitoring Officer to make the necessary changes to the written Constitution.

Reason

To ensure that the Council has effective and efficient Constitutional arrangements in place

Contact Details

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for the report:**

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**Report
Approved**



Date 31/1/12

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



**For further information please contact the author of the
report**

Background Papers

None

Annexes

None

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