**Notice of meeting of a Public Meeting of**

# Audit & Governance Committee

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| **To:** | Councillors N Barnes (Chair), Dew (Vice-Chair), Cullwick, Fenton, Gunnell, Kramm and Lisle<br>Mr Mendus and Mr Bateman |
| **Date:** | Wednesday, 10 February 2016 |
| **Time:** | 5.30 pm |
| **Venue:** | The Thornton Room - Ground Floor, West Offices (G039) |

## AGENDA

### 1. Declarations of Interest

Members are asked to declare:

- Any personal interests not included on the Register of Interests
- Any prejudicial interests or
- Any disclosable interests

which they might have in respect of business on the 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 1 - 12)

To approve and sign the minutes of the meeting held on 9 December 2015.

**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 Tuesday 9 February 2016.**

**Filming, Recording or Webcasting Meetings**

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Residents are welcome to photograph, film or record Councillors and Officers at all meetings open to the press and public. This includes the use of social media reporting, i.e. tweeting. Anyone wishing to film, record or take photos at any public meeting should contact the Democracy Officer (whose contact details are at the foot of this agenda) in advance of the meeting.

The Council's protocol on Webcasting, Filming & Recording of Meetings ensures that these practices are carried out in a manner both respectful to the conduct of the meeting and all those present. It can be viewed at https://www.york.gov.uk/downloads/file/6453/protocol_for_webcasting_filming_and_recording_council_meetingspdf

**5. Audit and Governance Committee's Forward Plan** (Pages 13 - 18)

This paper presents the future plan of reports expected to be presented to the committee during the forthcoming year to December 2016.

**6. Key Corporate Risk Monitor 4 2015/16** (Pages 19 - 38)

This paper presents an update on the key corporate risks for City of York Council and the refreshed Key Corporate Risk Report 2015.

7. **Audit Progress Report** (Pages 39 - 48)

This report updates Members on the progress made by Mazars in delivering its responsibilities as the Council's external auditors. The report also highlights key emerging national issues and developments which may be of interest to the Committee.

8. **Treasury Management Strategy Statement and Prudential Indicators** (Pages 49 - 92)

This report sets out the Treasury Management Strategy for 2016/17 to 2020/21. In response to Members' request at the previous meeting, the report also contains information on the Ethical Investment Policy. Members are asked to note the issues outlined on ethical investments and consider any recommendations they wish to make to Executive, and to note the Treasury management statement and Prudential indicators for 2016/17 to 2020/21.

9. **Update on the Older Persons' Accommodation Programme** (Pages 93 - 106)

This paper presents an update on the Older Persons' Accommodation Programme. Members are asked to review and comment on progress in delivering the programme.

10. **Fraud Risk Assessment** (Pages 107 - 122)

This report informs Members about potential fraud risks that the Council is exposed to, and proposed counter fraud activity to address those risks.

11. **Internal Audit Plan Consultation** (Pages 123 - 126)

This report seeks Members' views on the priorities for internal audit for 2016/17, to inform the preparation of the annual audit plan.

12. **Urgent Business**

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

Democracy Officer:
Name:  Jayne Carr
Contact Details:
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For more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting:

- Registering to speak
- Business of the meeting
- Any special arrangements
- Copies of reports and
- For receiving reports in other formats

Contact details are set out above.

**This information can be provided in your own language.**

我們也用您們的語言提供這個信息 **(Cantonese)**

এই তথ্য আপনার নিজের ভাষায় দেয়া যেতে পারে। **(Bengali)**

Ta informacja może być dostarczona w twoim własnym języku. **(Polish)**

Bu bilgiyi kendi dilinizde almanız mümkündür. **(Turkish)**

یہ معلومات آپ کی اپنی زبان (بولی) میں بھی مہیا کی جاسکتی ہیں۔ **(Urdu)**

☎ **(01904) 551550**

Agenda Item 3

City of York Council — Committee Minutes

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|---|---|
| Meeting | Audit & Governance Committee |
| Date | 9 December 2015 |
| Present | Councillors N Barnes (Chair), Dew (Vice-Chair), Cullwick, Fenton, Gunnell, Kramm, and Lisle<br>Mr Mendus and Mr Bateman |
| In attendance | Councillors Cuthbertson, Taylor and Warters |

## 34. Declarations of Interest

Members were asked to declare any personal interests not included on the Register of Interests, any prejudicial interests or any disclosable pecuniary interests which they may have in respect of business on the agenda. Councillor Barnes declared a Pecuniary Interest in agenda items 5 and 11, as his employer was a sponsor of one of the future occupants of the Community Stadium which was a project which was referred to in these reports. Councillor Barnes stated that if Members wished to discuss the community stadium aspects of these reports he would withdraw from the room and the Vice-Chair would take the Chair.

## 35. Minutes

Resolved: That the minutes of the meeting of 23 September 2015 be approved and signed as a correct record.

## 36. Public Participation

It was reported that there had been two registrations to speak at the meeting under the Council's Public Participation Scheme and that two Members of Council had also registered to speak.

Mr Ben Drake, Unison Representative, spoke in respect of agenda item 9 (Pension Investment in Fossil Fuels). He clarified that although he was the Unison Representative on the North Yorkshire Pensions Committee he was not speaking on behalf of the Committee. He stated that the Pensions Committee was already beginning to look at the issue of investment in fossil fuels and he drew Members' attention to the financial as well as fiduciary implications.

Councillor Dave Taylor, as Chair of the Learning and Culture Policy and Scrutiny Committee, spoke in respect of agenda item 7 (Audit and Counter Fraud Progress Report – specifically the TdF Review). He stated that the Learning and Culture Policy and Scrutiny Committee had agreed to carry out a review of aspects of the Tour de France and he outlined the remit of this review. He suggested that if the Audit and Governance Committee were intending to give consideration to aspects of the audit findings, it would be beneficial for the two committees to work together to avoid duplication and to ensure that the Council's resources were used effectively.

Ms Gwen Swinburn spoke of the need to ensure that appropriate checks and balances were in place to ensure accountability and expressed concerns that the audit that Mazars had carried out on the arrangements for delivering the Community Stadium project had not been as detailed as other reviews.

Councillor Warters spoke in respect of agenda items 5 and 11, with particular reference to the Community Stadium project. He highlighted the section in the Annual Audit Letter relating to this project and expressed concerns regarding changes made since the procurement process and in respect of the third party commercial element of the scheme. He stated that there should be a thorough investigation of the project and stressed the need to ensure that residents received value for money from the Council's investment.

## 37. Audit and Governance Committee's Forward Plan

Members considered a paper which presented the future plan of reports expected to be presented to the committee during the forthcoming year to September 2016. Officers detailed the changes that had been made to the plan since the last meeting, as detailed in paragraphs 4 to 6 of the report.

Members were invited to identify any further items they wished to see added to the Forward Plan.

In addition to the training sessions that had been arranged for the committee, Members were encouraged to contact officers if they had particular queries regarding reports that were due to be presented to the committee or if they had suggested training topics.

Members requested that the dates of meetings for the next municipal year be circulated as soon as possible.[1]

Resolved: That the committee's Forward Plan for the period to September 2016 be approved.

Reason: To ensure the committee receives regular reports in accordance with the functions of an effective audit committee and can seek assurances on any aspect of the Council's internal control environment in accordance with its roles and responsibilities.

Action Required
1.Circulate dates JC

**38. Programme/Project Management Update**

Members considered a report which provided an update on key programme and project activity. It also provided information on the work that the Council was carrying out to strengthen project and programme management. Members were asked to provide feedback on any further data they wished to see included in future update reports.

The Members who had been able to attend the briefing session on project management, which had included the opportunity to see the Verto system, stated that this had been very useful.

*(Councillor Barnes withdrew from the meeting. Councillor Dew in the Chair)*

Concerns were expressed that insufficient information had been provided to the committee regarding the Community Stadium project, particularly with regard to finance and procurement issues. Officers stated that the report had been intended to provide a summary of the main projects but that more detailed information could be provided to the committee should they so wish. In response to Members' concerns that they may not have access to commercially sensitive information relating to the community stadium project, officers gave assurances that the committee would be provided with all the necessary information it required to carry out its responsibilities. Where necessary, the arrangements for dealing with exempt information, would be applied.

Members asked that consideration be given to including the following information in future programme/project management update reports:

- Where another committee had already received a detailed report on a project it would be helpful for the summary update report to include a hyperlink to enable Members to access more detailed information if required.
- A traffic light system to better identify any emerging issues in respect of finance or timescales.
- Differentiating between dependencies, and where applicable, interdependencies in the summary template.
- The inclusion of the names of the Executive Member and the Director within responsibility for each project.

Members welcomed the instigation of gateways in the project management process and agreed that it would be useful for the committee to receive updates on particular projects at these time points. They also agreed that it would be helpful for Members to have access to the Verto system once this was rolled out across the Council. Members also commented on the need to ensure that when projects were being considered, full consideration was given to factors around managing ambition and the capacity to deliver.

Members commented on the need to ensure that the work they were undertaking in respect of programme and project management did not duplicate work being undertaken by other committees but they agreed on the importance of ensuring that they intervened at an early stage when projects were not on target. Members suggested that it would be useful for the committee to have a greater understanding of general procurement processes in respect of project management.

*(Councillor Barnes returned to the meeting and took the Chair)*

Resolved: (i) That the report be noted.

(ii) That the feedback from Members regarding the information they would wish to receive in respect of project management be taken into account in future update reports.[1]

Reasons: (i) To ensure that the committee is kept updated on key programme and project activity.

(ii) To ensure that Members receive the necessary information enable them to carry out their responsibilities as an Audit and Governance Committee member.

Action Required

1. Consider feedback to inform future reporting to the committee SH

## 39. Update on Information Governance

Members considered a report which provided an update on information governance developments since the last report to the committee in June 2015. The report detailed progress in implementing internal audit report recommendations as well as best practice developed by government and the Information Commissioner's Office (ICO). Members' attention was also drawn to the ICO's final report and audit opinion following its audit. The audit had focussed on City of York Council's arrangements in respect of records management, subject access requests and data sharing.

Members noted that the audit had been consensual and its scope had focussed on those areas in which the Council had most to learn. Although there was no requirement to do so, City of York Council had published the Executive Summary and the Full Report.

Officers were asked if the actions in the action plan were on target to be completed within the specified timescales. Officers stated that a number of the issues raised in the audit report could be resolved within a short timescale and that the committee would receive regular updates on progress in implementing the action plan. Members noted that the ICO would also carry out a follow-up audit to assess progress against the recommendations.

Referring to Annex 2 of the report (ICO Complaints), Members requested that the committee receive further information on those cases where the outcome was against the Council. [1]

Resolved: (i) That the report be noted.

(ii) That an update on progress in implementing the action plan be presented to the committee at their meeting on 13 April 2016.

Reasons: (i) To ensure that the committee is aware of the achievements made, as well as the opportunities and challenges arising from the ICO audit.

(ii) To enable Members to monitor progress in the implementation of the action plan.

Action Required
1. Provide information to the committee in next report LL

**40. Audit and Counter Fraud Progress Report**

Members considered a report which provided an update on progress made in delivering the internal audit workplan for 2015/16 and on current counter-fraud activity. The final internal audit reports had been included with the online agenda papers.

Tour de France

Members expressed concerns regarding the findings of the Tour de France audit report and questioned officers regarding aspects of the report, including the decision not to name the Members and officers who had been interviewed as part of the audit. Officers explained that the audit had been commissioned as a “lessons to be learned” report with the intention of identifying what could be done differently when future projects were planned. The report was a public document and hence individuals had not been named to avoid the need for redactions. The report was now with the Chief Executive for consideration.

Members sought clarification as to whether, if a similar event was to be held, it would be subject to the project management arrangements that were now in place. Officers confirmed this to be the case.

Members noted the comments that had been raised by the Chair of the Learning and Culture Policy and Scrutiny Committee under the Public Participation item, and agreed that it would be beneficial for the Audit and Governance Committee to work with the Scrutiny Task Group who were carrying out a review of aspects of the TDF. Members agreed on the importance of ensuring that lessons were learned and suggested that the Task Group should be asked to consider recommending a policy and procedures that could be applied for similar events in the future. It was agreed that the Chair and Vice-Chair would liaise with the Chair of the Learning and Culture Policy and Scrutiny Committee to request that the issues raised by Audit and Governance Committee were addressed during the course of the review.

Some concerns were expressed that it was now some time since the TDF had taken place but no learning points had yet been identified. It was noted that the scrutiny task group were intending to complete their review by the end of the current municipal year.

Public Health

Concerns were expressed that the Public Health audit had received an audit opinion of "limited assurance". Members requested that the Health and Adult Social Care Policy and Scrutiny Committee include this as an agenda item on their committee's work plan if they had not already done so.

Resolved: (i) That the progress made in delivering the 2015/16 internal audit programme, and current counter fraud activity be noted.

(ii) That, as part of their review, the TDF Task Group be asked to consider the concerns raised by the Audit and Governance Committee.[1]

(iii) That the Health and Adult Social Care Policy and Scrutiny Committee be requested to consider the recommendations arising from the Public Health audit report if they had not already done so.[2]

Reasons: (i) To enable Members to consider the implications of audit and fraud findings.

(ii) To ensure that lessons learned can be applied to the planning of future events.

(iii) To raise awareness of the issues in the report and ensure appropriate monitoring of progress in addressing the recommendations.

Action Required

| | |
|---|---|
| 1. Chair and Vice Chair, in consultation with the scrutiny officer, arrange for committee's views to be fed into the scrutiny review | MC |
| 2. Notify the Chair of the Health and Adult Social Care Policy and Scrutiny Committee | SE |

**41. Scrutiny of Treasury Management Mid Year review and Prudential Indicators 2015/16**

Members considered a paper which presented the Treasury Management Mid Year Review and Prudential Indicators 2015/16 report which had been considered by the Executive on 26 November 2015. The report provided an update on treasury management activity for the first six months of 2015/16.

Members were informed of the economic and market conditions in which the treasury management activities of the Council were currently operating. Officers responded to Members' questions on aspects of the report.

Resolved: That the Treasury Management Mid Year Review and Prudential Indicators 2015/16 be noted.

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.

**42. Pension Investment in Fossil Fuels**

Members considered a report which had been written in response to a Council motion of 8 October 2015 which required a report to be presented to the Audit and Governance Committee detailing York's current direct and indirect investments in fossil fuels, including current investment by North Yorkshire Pension Fund.

Members commented that the report had focussed on pension investment in fossil fuels and questioned whether investments made by City of York Council included investments in such companies. Officers explained that the Council did not directly invest in the stock market but invested with bank and building societies which did have investments in companies involved in fossil fuels. Officers were due to meet with treasury advisers and could find out more about the options available should Members so wish. Members suggested that it would also be helpful if information was sought from other Local Authorities who were looking to cease investing in fossil fuels.

Some concerns were expressed that, although City of York Council had a Member representative on the Pensions Fund Committee, appropriate arrangements were not in place to ensure that information was fed back to other Members of Council.

Members noted that the Final Accounts included a section on the Pension Fund and that the Pension Fund Committee also published an annual report.

Some Members expressed concern that if the Pension Fund was to withdraw its investments in fossil fuels members of the fund may be disadvantaged financially.

It was noted that the committee was due to receive a report on the Treasury Management Strategy Statement at the next meeting. It was suggested that the additional information requested by Members could be incorporated into that report.

Whilst some Members were content to note the contents of the report, other Members were concerned that the report had not provided information in respect of investments other than those held by the Pension Fund and that more detailed information should be provided to the committee.

Councillor Dew moved and Councillor Lisle seconded that the report be noted and that the committee take no further action. On being put to the vote this was not carried.

Members suggested that, as part of the Treasury Management Report that was due to be presented at the next meeting, information be provided in respect of the issues raised including not only the Pension Fund but also City of York Council’s own investments, consideration of investment in ethical funds and information from those local authorities who were considering withdrawing from investment in fossil fuels. On being put to the vote it was

Resolved: That, as part of the Treasury Management report scheduled to be presented at the next meeting, the following also be included[1]:

- Information on CYCs own investments
- Information gathered from other local authorities
- Details of North Yorkshire Pension Fund's investment policies and investments in fossil fuels

Reason: To ensure that the Council motion of 8 October 2015 is actioned.

<u>Action Required</u>

1. Include information requested in the next report DM

## 43. Mazars Audit Progress Report

Members considered a report which provided an update on progress made by Mazars in delivering its responsibilities as the Council's external auditors. The report also highlighted key emerging national issues and developments which may be of interest to Members.

Members were informed of the reasons why there had been a delay in the issuing of the audit certificate whilst the review of the governance arrangements relevant to the payments by City of York Trading Limited to two of the company's executive directors was completed. This work had now been completed and the consultation process was taking place. A request had been made for the deadline for responses to be extended to January 2016 and although Mazars had not agreed to do this they had extended the deadline from 10 December 2015 to 14 December 2015.

Members requested that they receive a copy of the report at the earliest opportunity and, depending on its contents, would wish a special meeting of the committee to be convened if appropriate. The Chair stated that once the report was published he would liaise with the Chief Executive and committee members regarding this matter.[1]

Resolved: That the report be noted.

Reason: To ensure that the committee is kept updated on progress made by the external auditors.

Action Required
1. On the instruction of the Chair, convene additional meeting if required JC

**44. Mazars Annual Audit Letter 2014/15**

Members considered the Annual Audit Letter 2014/15 from Mazars which summarised the outcome of the audit of the Council's 2014/15 annual accounts and the work on its value for money conclusion.

Members' attention was drawn to the key challenges for the Council, as detailed in section 4 of the Annual Audit Letter.

Clarification was sought as to how the Community Stadium review had been instigated. Officers confirmed that the review had been initiated by Mazars as part of the audit. The auditors had also instigated a more detailed review of the Transformation Programme.

Members' attention was drawn to the fee for the audit and certification work, as detailed in section 5 of the letter. It was noted that the fees did not include audit fees in relation to the review of the governance arrangements surrounding the payments by City of York Trading Limited to two of its executive directors.

Resolved: That the Annual Audit Letter be noted.

Reason: To ensure that Members are informed of the judgements of the external auditor

**45. Review of Project Management Arrangements for the Transformation Programme**

Members considered a report which detailed the findings of a review by Mazars of the programme and project management arrangements for the Transformation Programme.

Members were informed of the key findings of the review, as outlined in the report. It was noted that, although the Transformation Programme had now ended as a separate programme, many of the issues identified in the review would be relevant as the Council took forward these projects.

Resolved: That the report be noted.

Reason: To ensure that Members are aware of the findings of the review.

Councillor Neil Barnes, Chair
[The meeting started at 5.30 pm and finished at 8.45 pm].

Agenda Item 5

CITY OF YORK COUNCIL

**Audit and Governance Committee** 10th February 2016

Report of the Director of CBSS (Portfolio of the Leader of the Council)

**Audit & Governance Committee Forward Plan to December 2016**

**Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to December 2016.

**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 2016. 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. Two amendments have been made to the Forward plan since the previous version was presented to the Committee in December 2015.

4. The Absence Management Process update report and the Quarterly Project Management Update Report have both been deferred until the next Committee meeting in April.

**Consultation**

5. 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**

6. Not relevant for the purpose of the report.

**Analysis**

7. Not relevant for the purpose of the report.

**Council Plan**

8. This report contributes to the overall effectiveness of the council's governance and assurance arrangements.

**Implications**

9.
(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**

10. 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**

11.
(a) The Committee's Forward Plan for the period up to December 2016 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**

| **Author:** | **Chief Officer Responsible for the report:** |
|---|---|
| Emma Audrain<br>Technical Accountant<br>Customer & Business Support Services<br>Telephone: 01904 551170 | Ian Floyd<br>Director of CBSS<br>Telephone: 01904 551100<br><br>**Report Approved** √ **Date** 10/02/2016 |

**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 2016

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Annex

**Audit & Governance Committee Draft Forward Plan to December 2016**

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

- **Committee 13th April 2016**

  Mazars Audit Progress Report

  Mazars Audit Strategy Report

  Approval of Internal Audit Plan

  Internal Audit & Fraud Plan Progress Report

  Internal Audit Follow up of Audit Recommendations Report

  Information Governance Annual Report

  Quarterly Project Management update Report

  Absence Management Process update Report

  *Changes to the Constitution (if any)*

- **Committee June 2016**

  Draft Annual Governance Statement

  Annual Report of the Audit & Governance Committee

  Mazars Audit progress report

  Annual Report of the Head of Internal Audit

  Quarterly Project Management update report

  *Changes to the Constitution (if any)*

- **<u>Committee July2016</u>**

  Draft Statement of Accounts

  Mazars Audit Progress Report

  Scrutiny of the Treasury Management Annual Report 2015/16 and review of Prudential Indicators

  Key Corporate Risks Quarter 2 (including directorate risks)

  Freedom of Information Update report

  *Changes to the Constitution (if any)*

- **<u>Committee September 2016</u>**

  Final Statement of Accounts 2015/16

  Mazars Audit Completion Report

  Key Corporate Risks Quarter 3

  Follow up of Internal & External Audit recommendations

  Internal Audit & Fraud plan progress report

  Quarterly Project Management update report

  *Changes to the Constitution (if any)*

- **<u>Committee December 2016</u>**

  Mazars Annual Audit Letter 2015/16

  Mazars Audit Progress Report

  Treasury Management Mid year review report 2016/17 and review of prudential indicators

  Information Governance & Freedom of Information Update Report

  Internal Audit & Fraud Progress Report

  *Changes to the Constitution (if any)*

CITY OF YORK COUNCIL

**Audit & Governance Committee** **10 February 2016**

Report of the Assistant Director, Customers & Business Support Services, Customers & Employees

## Key Corporate Risk Monitor 4 2015/16

## Summary

1. The purpose of this paper is to present to Audit & Governance Committee (A&G) an update on the key corporate risks for City of York Council (CYC), and the present refreshed Key Corporate Risk (KCR) Register 2015.

2. Risk management at CYC identifies the key risks for the authority and how they are being managed. This process may demonstrate that risks are being managed very well but need ongoing monitoring, others need action taken to manage the risk effectively. The role of this Committee is to assess whether the full risk environment is being adequately reviewed, key risks are identified and receive assurances that risks are being mitigated through targeted monitoring and/or action.

## Background

3. The risk management process at CYC ensures that all key and emerging risks are reported regularly to A&G on at least a quarterly basis. The purpose of this paper is to provide assurance that the council identifies understands, effectively manages and reviews its key risks.

4. A key element in the work to revitalise risk management throughout the authority was to get risk back onto the corporate agenda.

5. This work has been very successful and we now see risk routinely featuring on DMT agendas on a quarterly basis. These sessions are used to update both the departmental and any key corporate risk (KCR) which has been allocated to the

Director for management. It is also an opportunity to consider any risks which might be on the horizon and facilitate dialogue around risk in general.

**Key Corporate Risk (KCR) update**

6. By their very nature, the KCRs remain reasonably static with any real movements being further actions that are undertaken which strengthen the control of the risk further. The current KCRs can be found at Annex A.

7. Work has been started following the feedback from committee that the risks were not clearly articulated. This issue arose due to the evolution of the KCRs which had initially been themes rather than actual risks that required management. This work will be completed in time for the next monitor.

8. During the risk training delivered to members of this committee, it was stated that a greater understanding of the controls in place to mitigate the risk would be key to gaining assurance that the risk is being effectively managed and that the net scores appear reasonable.

**KCR 06 Workforce/Capacity**

9. The author has sought the assistance of the Head of Business HR to provide further information around each of the controls for the above referenced risk.

10. Workforce Strategy

    The Workforce Strategy sets out how the council plans to shape and support its workforce and resources to meet its priorities in the Council Plan. Our vision for York is to have a workforce that understands our priorities, is innovative and creative, diverse and inclusive, flexible, ready and willing to respond to changes in the work we do and how we do it. Underpinning the strategy are a range of activities which focus on the following areas;

    - Skills and Behaviours Development
    - Recruitment and Retention
    - Pay, Reward and Recognition
    - Wellbeing and Engagement
    - Performance and Change

HR are currently consulting on the next version of the Workforce Strategy which will reflect the changing environment the council now operates in.

11. Stress Risk Assessments

We know that work-related stress can be a major cause of occupational ill health, poor productivity and human error. It can result in sickness absence, high staff turnover and poor performance, plus a possible increase in accidents due to human error. The risk assessment provides a framework for a discussion between an employee and their manager about work demands, the controls and support which can be put in place and hopefully create better work relationships. Agreed actions are recorded for follow up.

12. PDRs

The aim of the annual PDR meeting is for staff and their manager to:

- Explore and review performance from the previous year, recognising achievements and areas of particular strengths, whilst also receiving positive and constructive feedback highlighting areas of potential development.
- Discuss and set measurable objectives and targets for the coming year in line with team, service and corporate plans (exploring potential challenges along the way).
- Have the opportunity to review and identify learning and development needs and explore any desire for career progression.

13. Comprehensive occupational health provision including counselling

The council has an Occupational Health provider who can provide advice guidance and support to staff and their managers, with the aim of:

- Enabling the rehabilitation of employees returning to work following ill health.
- Assist employees to achieve good health by providing health advice and support.
- Prevent employees from becoming ill as a result of the work they do.

In addition the council provides for staff a free, confidential, independent telephone counselling and advice service with professional advisers is available any time day or night, 365 days a year.

14. HR Policies

provide guidance on how a wide range of issues should be handled, incorporating a description of principles, rights and responsibilities for managers and employees. Some are specifically needed to comply with legal requirements but all provide a framework for resolving workplace issues.

**Risk Management next steps**

15. Risk management training was delivered to members of the Audit & Governance Committee on the 14th January 2016 and was the first session to be delivered. Further training for all members will now be planned and will be delivered by Zurich Municipal.

16. Work will then be undertaken with the Workforce Development Unit to arrange training sessions for officers and to ensure that the issues experienced previously with regards to attendance on risk training are not repeated.

17. As we can now have some degree of confidence in the system for the updating of the Key Corporate Risks, time can now be spent working with services to develop risk registers for their area of work. To date we have undertaken work with the following:

Finance
Legal
Public Health
Customer Services
Transparency and Feedback (to be completed)

It is recognised that there remains much work to do in this area and as such this is ongoing.

18. Initial discussions have taken place with Zurich with regards to the development of a risk appetite statement. It is intended

that a defined risk appetite would assist decision making by both members and officers in that it would provide much needed context around the risk scores. This work will begin in earnest in April and will be reported to Audit & Governance Committee in risk monitor 3.

**Options**

19. Not applicable.

**Council Plan 2015 - 2019**

20. The effective consideration and management of risk within all of the council's business processes helps support achieving 'evidence based decision making' and aid the successful delivery of the three priorities.

**Implications**

21.

(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**

22. In compliance with the council's Risk Management Strategy, there are no risks directly associated with the recommendations of this report. The activity resulting from this report will contribute to improving the council's internal control environment.

**Recommendations**

23. Audit and Governance Committee is asked to:

 (a) consider and comment on the refreshed key corporate risks which can be found in detail at Annex A;

 (b) consider and provide feedback/comment on the information provided in respect of the controls applicable to KCR 06 Workforce/Capacity.

 Reason
 *To provide assurance that the authority is effectively understanding and managing its key risks.*


| **Contact Details**<br>**Author:** | **Chief Officer Responsible for the report:** | | | |
|---|---|---|---|---|
| Lisa Nyhan<br>Corporate Transactional and Business Services Manager<br>Phone No. 01904 552953 | Pauline Stuchfield<br>Assistant Director Customer & Business Support Services | | | |
| | **Report Approved** | √ | **Date** | 1/2/16 |


**Specialist Implications Officer(s)** Not applicable

**Wards Affected** Not applicable **All**

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

**Annexes**

Annex A – Refreshed Key Corporate risk register

# KCR 01 Financial Pressures

*Over the course of the last 4 years there has been a substantial reduction in government grants leading to significant financial savings delivered. The expectation is that £10million annually will be required in future years. The council needs a structured and strategic approach to deliver the savings in order to ensure that any change to service provision is aligned to the council's key priorities.*

**Risk:** Financial Pressures

Risk Owner: Ian Floyd

**Gross Risk Rating:** High **20**

**Gross Risk Likelihood:** Probable

**Gross Risk Impact:** Major

*Cause*

*• Reduction in government grants leading to the necessity to make savings*
*• Increased service demand and costs (for example an aging population).*

*Consequence*

*• Potential major implications on service delivery*
*• Impacts on vulnerable people*
*• Spending exceeds available budget*

| **Controls** | **Owner** |
|---|---|
| Regular budget monitoring | |
| Two year budget cycles and effective medium term planning and forecasting | Ian Floyd |
| Chief finance officer statutory assessment of balanced budget | Ian Floyd |
| Regular communications on budget strategy and options with senior management and politicians | Ian Floyd |
| Skilled and resourced finance function, supported by managers with financial awareness | Ian Floyd |

**Net Risk Rating:** Medium **14**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Moderate

| **Actions** | **Target Date** | **Revised Date** |
|---|---|---|
| Development of a new Medium term plan after May elections | 31/03/2016 | |

**Comments:**

# KCR 02 Governance

*With the current scale and pace of transformation taking place throughout the organisation, it is now more important than ever that the council ensures that its key governance frameworks are strong including those around information governance and transparency.*

**Risk:** Governance

Risk Owner: Ian Floyd

**Gross Risk Rating:** High **20**

**Gross Risk Likelihood:** Probable

**Gross Risk Impact:** Major

*Cause*

- *Member/Officer relations may not be effective*
- *Increased interactions in relation to FOI and transparency*
- *Failure to comply with information security policy*

*Consequence*

- *Breach of Data Protection Act and other non compliance*
- *Fines levied by Information Commissioner*
- *Impact on the end user/customer*
- *Public safety may be put at risk*
- *Further incidents occur*
- *Adverse media coverage*
- *Reputational impact*

| Controls | Owner |
|---|---|
| Electronic Communication Policy | Ian Floyd |
| IT security systems in place | Ian Floyd |
| Corporate Information Governance Group | Ian Floyd |
| Secure paper storage and confidential waste disposal available in office accommodation | Ian Floyd |
| Internal Audit reviewing information security | Ian Floyd |
| New Head of Health and Safety | Pauline Stuchfield |
| Health and Safety monitoring by CMT and DMTs | Pauline Stuchfield |
| Regular monitoring to Audit & Governance committee | Ian Floyd |
| New governance structure | Andrew Docherty |

**Net Risk Rating:** High **19**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Major

| Actions | Target Date | Revised Date |
|---|---|---|
| Review of Health and Safety governance frameworks | 30/09/2015 | |
| Health and Safety training programmes at all levels | 31/03/2016 | |

**Comments:**

## KCR 03 Transformation/rewiring

*Delivering the objectives set for the transformation programme moving from the existing model to the desired outcome, will require looking at innovative ways of meeting business objectives and service delivery going forward whilst ensuring that services continue to be delivered effectively whilst the work is ongoing.*

**Risk:** Transformation/Rewiring

Risk Owner: Stewart Halliday

**Gross Risk Rating:** High **20**

**Gross Risk Likelihood:** Probable

**Gross Risk Impact:** Major

*Cause*

- *Ineffective programme management*
- *Failure to engage with the community on the changes required*
- *Failure to support and manage change effectively*

*Consequence*

- *Adverse impact on service delivery*
- *Fail to meet the needs of vulnerable people*
- *Unable to lower the cost base*
- *Opportunities missed*
- *Reputational impact*

| Controls | Owner |
|---|---|
| Effective engagement activity | Stewart Halliday |
| Detailed business cases | Stewart Halliday |
| Programme governance | Stewart Halliday |

**Net Risk Rating:** High **19**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Major

| Actions | Target Date | Revised Date |
|---|---|---|
| Ongoing monitoring | 31/03/2016 | |
| Fuller consultation and engagement | 31/03/2016 | |

**Comments:**

# KCR 04 Changing demographics

*York has a rapidly changing demographic and this brings with it significant challenges particularly in the delivery of adult social care. On the converse, the results of the recent baby boom will have a future impact on school places and services not to mention social care. There has also been significant inward migration and as such the council needs to ensure that community impacts are planned for and resourced.*

**Risk:** Inability to meet statutory duties due to changes in demographics

Risk Owner: Jon Stonehouse & Martin Farran

**Gross Risk Rating:** High **20**

**Gross Risk Likelihood:** Probable

**Gross Risk Impact:** Major

*Cause*

- *Baby boom coming through*
- *Inward migration*
- *Development and regeneration makes York more desirable and accessible*
- *An aging population requiring services from the council placing significant financial and delivery challenges*
- *Increased ethnicity*
- *Growning SEN - in particular autism*
- *Popularity of universities*
- *Increase in complexity of needs as people get older*
- *Increase in people living with dementia*
- *Demographic of workforce unable to meet demand*

*Consequence*

- *Increased service demand; school placements, SEN, emotional mental health*
- *Impact on reducing budgets and resources*
- *Statutory school places have to be found*
- *Rise in delayed discharges*
- *Impact on service users*
- *Reputational impact*
- *Insufficient capacity for workload - need right people in the right place*

| Controls | Owner |
|---|---|
| Analysis of need and work around options | Jon Stonehouse |
| Stakeholder and officer group | Jon Stonehouse |
| DfE returns | Jon Stonehouse |
| Inclusion review | Jon Stonehouse |
| Caseload monitoring | Jon Stonehouse |
| Early intervention initiatives and better self-care | Michael Melvin |
| Place planning strategy in place | Jon Stonehouse |
| School population reported every 6 months | Jon Stonehouse |

**Net Risk Rating:** High **19**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Major

| Actions | Target Date | Revised Date |
|---|---|---|
| Ensure adequate supply of schools places (CYC Place Planning Strategy, Governance Structure) | 01/09/2015 | 31/03/2017 |

**Comments:**
Guy Van Dichele left the council 07/08/2015. Martin Farran not in post until 15/09/2015.
Action dates have been revised following the risk session at CSES DMT on 9th July 2015, to reflect that the work is ongoing and has not yet been completed.

## KCR 05 Safeguarding

*Ensuring that vulnerable adults and children in the city are safe and protected is a key priority for the council. The individual, organisational and reputational implications of ineffective safeguarding practice are acute.*

**Risk:** A vulnerable child or adult with care and support needs is not protected from harm

Risk Owner: Martin Farran & Jon Stonehouse

| | | | |
|---|---|---|---|
| **Gross Risk Rating:** | High 20 | **Gross Risk Likelihood:** | Probable |
| | | **Gross Risk Impact:** | Major |

*Cause*

- *Failure to comply with statutory duty*
- *Radicalisation of young people*

*Consequence*

- *Vulnerable person not protected*
- *Children's serious case review or lessons learned exercise*
- *Safeguarding adults review*
- *Reputational damage*
- *Serious security risk*

| **Controls** | **Owner** |
|---|---|
| Safeguarding adults Board | Martin Farran |
| Safeguarding sub groups | Martin Farran |
| Multi agency policies and procedures | Martin Farran |
| Adults - Multi agency safeguarding hub (MASH) | Martin Farran |
| Specialist safeguarding cross sector training | Martin Farran |
| Quantitative and qualitative performance management | Jon Stonehouse |
| Reporting and governance to lead Member, Chief Executive and Scrutiny | Jon Stonehouse |
| Annual self assessment, peer challenge and regulation | Jon Stonehouse |
| Audit by Veritau of Safeguarding Adults processes | Michael Melvin |
| Children's Safeguarding Boards (LSCB & ASB) | Jon Stonehouse |
| Ongoing inspection preparation & peer challenge | Jon Stonehouse |
| National Prevent process | Jon Stonehouse |
| DBS checks and re-checks | Jon Stonehouse |
| Effectively resourced and well managed service | Jon Stonehouse |

| | | | |
|---|---|---|---|
| **Net Risk Rating:** | Medium 14 | **Net Risk Likelihood:** | Possible |
| | | **Net Risk Impact:** | Moderate |

| **Actions** | **Target Date** | **Revised Date** |
|---|---|---|
| Re-write policies and procedures to ensure that they are Care Act compliant | 31/03/2016 | |
| Implementation of new multi-agency early help arrangements | 01/11/2016 | |

**Comments:**

## KCR 06 Workforce/Capacity

*It is crucial that the council remains able to retain essential skills and also to be able to recruit to posts where necessary, during the current periods of uncertainty caused by the current financial climate and transformational change. The health, wellbeing and motivation of the workforce is therefore key in addition to skills and capacity to deliver.*

**Risk:** Workforce/capacity

Risk Owner: Ian Floyd

**Gross Risk Rating:** High **20**

**Gross Risk Likelihood:** Probable

**Gross Risk Impact:** Major

*Cause*

- *The necessity to deliver savings has resulted in a reduced workforce*
- *Recruitment and retention difficulties as the council is seen as a less attractive option than the private sector*
- *Lack of succession planning*
- *Single points of failure throughout the business*

*Consequence*

- *Increased workloads for staff*
- *Impact on morale and as a result, staff turnover*
- *Inability to maintain service standards*
- *Impact on vulnerable customer groups*
- *Reputational damage*

| **Controls** | **Owner** |
|---|---|
| Workforce Strategy | Pauline Stuchfield |
| Stress Risk Assessments | Pauline Stuchfield |
| PDRs | Pauline Stuchfield |
| Comprehensive Occupational Health provision including counselling | Pauline Stuchfield |
| HR policies e.g. whistleblowing, dignity at work | Pauline Stuchfield |

**Net Risk Rating:** Medium **14**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Moderate

| **Actions** | **Target Date** | **Revised Date** |
|---|---|---|
| Production of new workforce strategy | 31/12/2015 | |
| Ongoing Monitoring | 01/01/2016 | |
| Staff survey Sept 2015 and establish new action plans by 2016 | 01/01/2016 | |
| Delivery of organisation development plan | 31/03/2016 | |

**Comments:**

## KCR 07 Health and Wellbeing

*The council now has the responsibility for the provision of public health services and also for the formation of the Health & Wellbeing Board, which has the ambition to bring together local organisations to work in partnership to improve outcomes for the communities in which they work. Failure to adequately perform these functions could result in the health and wellbeing of communities being adversely affected.*

**Risk:** Health and Wellbeing

Risk Owner: Sally Burns

**Gross Risk Rating:** High **20**

**Gross Risk Likelihood:** Probable

**Gross Risk Impact:** Major

*Cause*

- *Outcomes may be difficult to evidence due to longevity*
- *Lack of resources: numbers and/or specialist skills*
- *Other priorities means less focus on Health and Wellbeing outcomes*
- *Failure to deliver Health and Wellbeing responsibilities*
- *Failure to integrate Public Health outcomes*
- *Reliance on partners outside of the council's control*
- *Failure to take on board the new responsibility*

*Consequence*

- *Health and wellbeing of the community adversely affected*
- *Key objectives are not delivered*
- *Reputational damage*

| **Controls** | **Owner** |
|---|---|
| Health and Wellbeing Board own the strategy and receives reports on progress | Sally Burns/Sharon Stoltz |

**Net Risk Rating:** High **19**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Major

| **Actions** | **Target Date** | **Revised Date** |
|---|---|---|
| Review of strategy and policy under way including delivery structure | 31/01/2016 | |

**Comments:**

# KCR 08 Local Plan

*The council has a statutory duty to develop a Local Plan, a citywide plan, which helps shape future development in York over the next 20-years. It sets out the opportunities and policies on what will or will not be permitted and where, inc. new homes and businesses. The Local Plan is a critical part of helping to grow York's economy, create more job opportunities and address our increasing population needs. Failure to develop a suitable Plan could result in York losing its power to make planning decisions.*

**Risk:** Local Plan

Risk Owner: Neil Ferris

**Gross Risk Rating:** High **20**

**Gross Risk Likelihood:** Probable

**Gross Risk Impact:** Major

*Cause*

- *Fail to adopt and agree a Local Plan*
- *Local Plan adoption process delayed*
- *Significant opposition to the plan that may impede its progression*

*Consequence*

- *Significant negative impact on the council's strategic economic goals*
- *Council continues to have no adopted development plan/framework*
- *Legal and probity issues*
- *Reputational damage*
- *Increased resources required to deal with likely significant increase in planning appeals*
- *Development processes and decision making is slowed down*
- *Widespread public concern and opposition*
- *Inability to maximise planning gain from investment*
- *Adverse impact on investment in the city*
- *Unplanned planning does not meet the authority's aspirations of the city*
- *Ongoing costs of the preparation of the Local Plan*

| Controls | Owner |
|---|---|
| Develop strategy for cross party working on long term strategic issues | Neil Ferris |
| CMT and DMT to work closely with key Members on Local Plan issues | Neil Ferris |
| Proactive communication strategy | Neil Ferris |
| Effective programme and project management to ensure timescales and milestones are met | Neil Ferris |
| Effective project resourcing | Neil Ferris |
| Continued close liason with neighbouring authorities | Neil Ferris |
| Continued close liason with DCLG and Planning Inspectorate | Neil Ferris |

**Net Risk Rating:** High **19**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Major

| Actions | Target Date | Revised Date |
|---|---|---|
| Monitoring of controls | 30/06/2015 | 31/03/2016 |

**Comments:**
Action date revised to reflect the ongoing nature of the activity.

## KCR 09 Communities

*The council needs to engage in meaningful consultation with communities to ensure decisions taken reflect the needs of the residents, whilst encouraging them to be empowered to deliver services that the council is no longer able to do. Failing to do this effectively would mean that services are not delivered to the benefit of those communities or in partnership.*

**Risk:** Failure to ensure we have resilient, cohesive communities who are empowered and able to shape and deliver services

Risk Owner: Sally Burns

**Gross Risk Rating:** High **20**

**Gross Risk Likelihood:** Probable

**Gross Risk Impact:** Major

*Cause*

- *Failure to effectively engage with the communities we serve*
- *Failure to contribute to the delivery of safe communities*
- *Failure to effectively engage stakeholders in the decision making process*
- *Failure to manage expectations*

*Consequence*

- *Lack of buy in and understanding from stakeholders*
- *Alienation and disengagement of the community*
- *Relationships with strategic partners damaged*
- *Impact on community wellbeing*
- *Services brought back under council provision*
- *Budget overspend*
- *Create inefficiencies*
- *Services not provided*

| Controls | Owner |
|---|---|
| Proactive resource to engage management across the council | Sally Burns |
| Communication and consultation Strategy | Sally Burns |

**Net Risk Rating:** High **19**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Major

**Comments:**

# KCR 10 Effective and strong partnerships

*In order to continue to deliver some services the council will have to enter into partnerships with a multitude of different organisations whether they are third sector or commercial entities. There needs to be robust, clear governance arrangements in place for these partnerships as well as performance monitoring arrangements to ensure delivery of the objectives.*

**Risk:** Effective and strong partnerships

Risk Owner: Stewart Halliday

**Gross Risk Rating:** High **20**

**Gross Risk Likelihood:** Probable

**Gross Risk Impact:** Major

<u>*Cause*</u>

- *Failure to effectively monitor and manage partnerships*
- *Lack of centralised register of partnerships*

<u>*Consequence*</u>

- *Key partnerships fail to deliver of break down*
- *Ability to deliver transformation priorities undermined*
- *Adverse impact on service delivery*
- *Funding implications*
- *Reputational impact*

| **Controls** | **Owner** |
|---|---|
| Partnership code of practice | Stewart Halliday |

**Net Risk Rating:** Medium **14**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Moderate

| **Actions** | **Target Date** | **Revised Date** |
|---|---|---|
| Publish, publicise and implement the CYC Partnership Code of Practice corporately | 31/03/2015 | 31/12/2015 |

**Comments:**

Work to develop the CYC Partnership Code of Practice is currently underway and it is hoped that this may be delivered by the end of the calendar year, the action target date has been amended to reflect this.

# KCR 11 Capital Programme

*The capital programme currently has approximately 85 schemes with a budget of £203 million. The schemes range in size and complexity but are currently looking to deliver two very high profile projects, the Community Stadium and York Central, which are key developments for the city.*

**Risk:** Capital Programme

Risk Owner: Ian Floyd

**Gross Risk Rating:** High **19**

**Gross Risk Likelihood:** Possible

**Gross Risk Impact:** Major

*Cause*

- *Inadequate monitoring/project management in relation to large capital projects*
- *Complex projects with inherent risks*
- *Large capital programme being managed with less resource*

*Consequence*

- *Additional costs and delays to delivery of projects*
- *The benefits to the community are not realised*
- *Reputational Damage*

| Controls | Owner |
|---|---|
| Project boards and project plans | Ian Floyd |
| Regular monitoring of schemes | Ian Floyd |
| Capital programme reporting to Cabinet | Ian Floyd |
| Strong financial, legal and procurement support included within the capital budget for specialist support skills | Ian Floyd |
| Mazars review of the EPH project | Ian Floyd |

**Net Risk Rating:** Medium **14**

**Net Risk Likelihood:** Possible

**Net Risk Impact:** Moderate

| Actions | Target Date | Revised Date |
|---|---|---|
| Quarterly reports on major projects-capital programme to executive to be put in place | | |

**Comments:**

**Risk Matrix**

| Impact | | | | | |
|---|---|---|---|---|---|
| Catastrophic | 17 | 22 | 23 | 24 | 25 |
| Major | 12 | 18 | 19 | 20 | 21 |
| Moderate | 6 | 13 | 14 | 15 | 16 |
| Minor | 2 | 8 | 9 | 10 | 11 |
| Insignificant | 1 | 3 | 4 | 5 | 7 |
| | Remote | Unlikely | Possible | Probable | Highly Probable |

Likelihood

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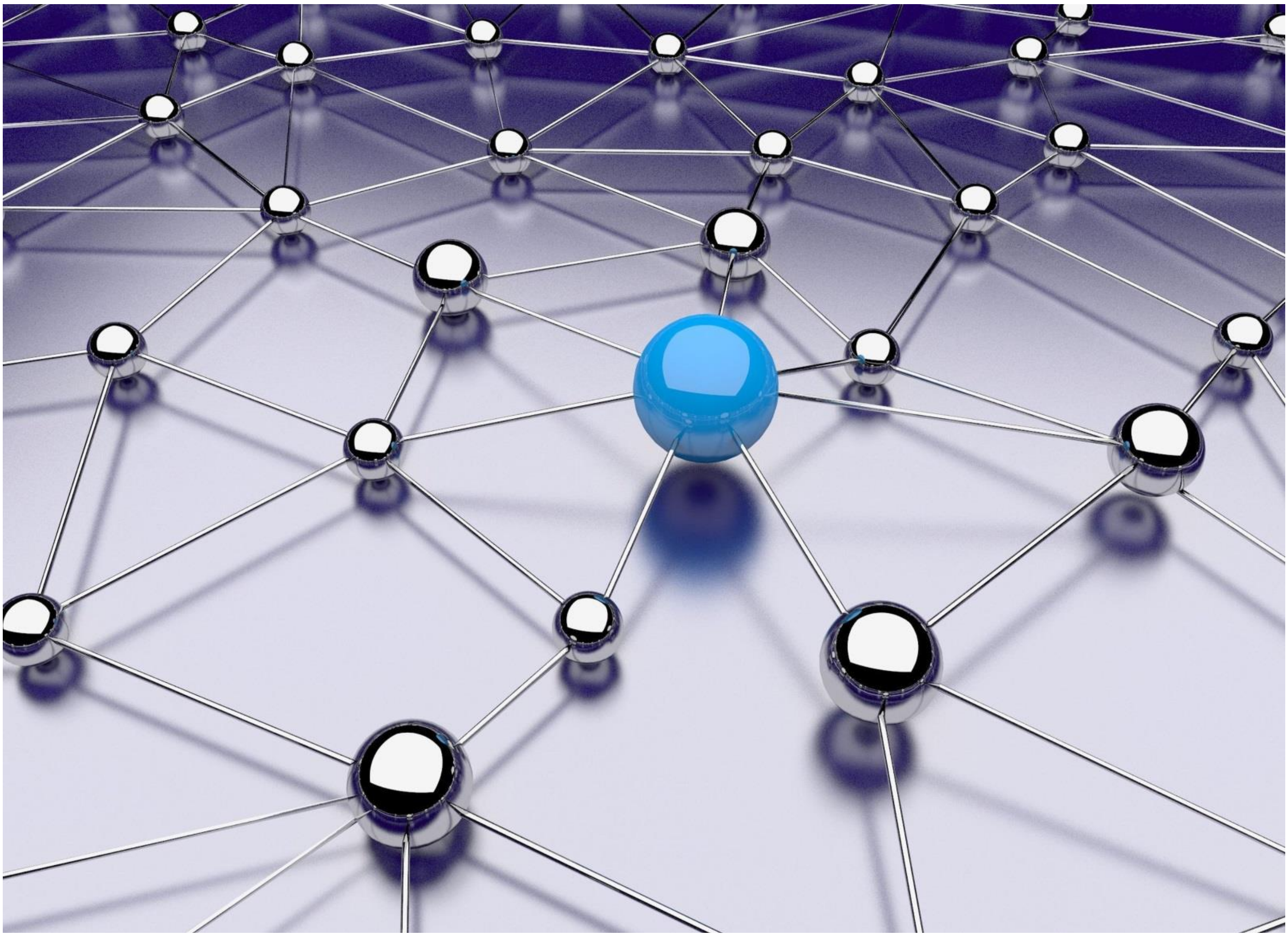
# City of York Council
# Audit Progress Report
## February 2016



CITY OF YORK COUNCIL

MAZARS

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*Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to City of York Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.*

# 01 Introduction

The purpose of this report is to update the Audit and Governance Committee of City of York Council (the Council) on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

# 02 Summary of audit progress

## Position on the 2014/15 audit

As previously reported to Members, we have not yet issued an audit certificate concluding the 2014/15 audit, due to our review of governance around remuneration paid by City of York Trading Ltd to two of the company's executive directors who were also officers of the Council. We will update the Committee on this work at its meeting.

## Certification of claims and returns

We reported in our last Audit Progress Report that work on the 2014/15 Housing Benefits Subsidy Claim was complete, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2014. There were no reporting issues or amendments to the claim arising from our work.

It has been clarified that our regulator still requires us to produce an annual grants report on this work. Rather than produce a separate report, we have incorporated our annual grants report into this report in the following paragraphs.

**Results of certification work 2014/15**

As the Council's appointed auditor, we acted as an agent of the Audit Commission for the purpose of certifying claims and returns. The Local Audit and Accountability Act 2014 transferred the Audit Commission's responsibilities to make certification arrangements for specified claims and returns to Public Sector Audit Appointments (PSAA). Each year we must report the results of our certification work to those charged with governance. For 2014/15 the only claim or return within this regime was the Housing Benefit subsidy return.

In 2014/15 the prescribed tests for our Housing Benefits work were set out in the HBCOUNT module and BEN01 Certification Instructions issued by the Audit Commission. For the Housing Benefit subsidy return, on completion of the specified work we issue a certificate. The certificate states whether the claim has been certified either without qualification; without qualification following amendment by the Council; or with a qualification letter. Where we issue a qualification letter or the claim or return is amended by the Council, the grant paying body may withhold or claw-back grant funding.

The City of York Council's 2014/15 Housing benefit subsidy return was submitted without amendment or qualification.

| Claim or return | Value of claim | Amended | Qualified |
|---|---|---|---|
| Housing benefit subsidy | £43.9 million | No | No |

As was also the case in 2013/14, we did not make any recommendations or highlight any significant issues for improvement.

**Fees**

Prior to its abolition, the Audit Commission set an indicative fee for our work on the Council's Housing Benefit subsidy return. We confirm that the final fee payable for this work as outlined in the table below is in line with the indicative fee. The following fee was charged for the 2014/15 work.

| Claim or return | 2014/15 indicative fee | 2014/15 final fee | 2013/14 final fee |
|---|---|---|---|
| Housing Benefit subsidy | £15,220 | £15,220 | £15,572 |

## Additional schemes outside the national arrangements

When we reported progress in December 2015, we explained that we had been unable to submit the audited pooling of housing capital receipts return because of a national issue with the LOGASNET website established by the Department for Communities and Local Government (DCLG) for this purpose. These technical problems were resolved and we were able to certify completion of our work on 7 January 2016. There were no issues arising from this work that required reporting.

## 2015/16 planning

Our audit planning for the 2015/16 audit year is now well underway.

Our detailed Audit Strategy Memorandum will set out our planned work and assessments in more detail and we will present the plan to the Audit and Governance Committee meeting on 13 April 2016.

# 03 Updated Value for Money conclusion guidance

## Summary

The National Audit Office has published updated guidance in respect of the Value for Money (VfM) conclusion. The guidance sets out the revised criterion applying to 2015/16 audits and consists of an overarching document, along with a local authority-specific paper which provides details of supporting background information on key issues facing local authorities.

**Overarching guidance:** https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-03-VFM-Arrangements-Work-09-11-15.pdf

**Local-authority specific background:** https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Supporting-information-AGN-03-Local-authorities-Nov-2015.pdf

## Revised criteria

In previous years, auditors were required to reach their statutory conclusion on arrangements to secure VfM in respect of two main criteria; these have now been replaced by one overall criterion, supported by three sub-criteria, as set out in the two tables below

**Previous year criteria**

| Previous year criteria | Focus of each criterion |
|---|---|
| **The Council has proper arrangements in place for securing financial resilience.** | The Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. |
| **The Council has proper arrangements for challenging how it secures economy, efficiency, and effectiveness.** | The Council is prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity. |

**New criterion from 2015/2016**

| New overall criterion | Sub-criteria |
|---|---|
| **In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.** | • Informed decision-making.<br>• Sustainable resource deployment.<br>• Working with partners and other third parties. |

## Sub-criteria – further detail

In both local government and the NHS, organisations are already required to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through Annual Governance Statements.

The recently issued guidance draws on relevant requirements applicable to each sector and aligns the scope of proper arrangements with those that responsible parties are already required to have in place and to report on through documents such as annual governance statements and annual reports (where applicable).

Drawing on the relevant requirements applicable to local bodies, proper arrangements cover the following:

| Sub-criteria | Guidance |
|---|---|
| **Informed decision-making** | • Acting in the public interest, through demonstrating and applying the principles and values of sound governance.<br>• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.<br>• Reliable and timely financial reporting that supports the delivery of strategic priorities.<br>• Managing risks effectively and maintaining a sound system of internal control. |
| **Sustainable resource deployment** | • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.<br>• Managing and utilising assets effectively to support the delivery of strategic priorities.<br>• Planning, organising and developing the workforce effectively to deliver strategic priorities. |
| **Working with partners and other third parties** | • Working with third parties effectively to deliver strategic priorities.<br>• Commissioning services effectively to support the delivery of strategic priorities.<br>• Procuring supplies and services effectively to support the delivery of strategic priorities. |

## Next steps

As in previous years, the VfM conclusion requires auditors to reach a conclusion on whether arrangements are in place for securing VfM as opposed to an absolute determination on whether VfM is being achieved. The guidance also highlights that auditors should note that while all bodies will work with partners and other third parties (including contractors), the significance of these arrangements, and consequently the extent to which they will impact on the auditor’s risk assessment, will vary.

**We will carry out an initial risk assessment in respect of the VfM conclusion for 2015/16, drawing on the newly issued guidance. This will inform our assessment of any significant risks and the extent of work required and we will report this in our Audit Strategy Memorandum for the 2015/16 audit.**

# 04 National publications and other updates

**This section contains updates on the following:**

1. **A short guide to the Department for Communities and Local Government, National Audit Office**
2. **A short guide to the National Audit Office's work on local authorities, National Audit Office**

## 1. A short guide to the Department for Communities and Local Government, National Audit Office

The National Audit Office (NAO) is publishing a suite of short guides; one for each government department, to assist House of Commons Select Committees. This guide is designed to provide a quick and accessible overview of the Department and focuses on what the Department does, how much it costs and recent and planned changes.

https://www.nao.org.uk/report/a-short-guide-to-the-department-for-communities-and-local-government/

## 2. A short guide to the National Audit Office's work on local authorities, National Audit Office

The NAO has also published a short guide to its work on local authorities; this guide is designed to provide a quick and accessible overview of how local government is funded, the pressures local authorities face, staffing, and major recent and future developments.

https://www.nao.org.uk/report/a-short-guide-to-the-naos-work-on-local-authorities/

# 05 Contact details

Please let us know if you would like further information on any items in this report.

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**Audit and Governance Committee** **10 February 2016**

Report of the Director of Customer and Business Support Services

**Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2020/21**

## Summary and Background

1. Audit & Governance Committee are responsible for ensuring the effective scrutiny of the treasury management strategy and policies.

2. The Treasury Management Strategy Statement and Prudential Indicators 2016/17 to 2020/21 are attached at Annex A and cover the:
    - Integrated treasury management strategy statement including the annual investment strategy and the minimum revenue provision policy statement;
    - Prudential indicators
    - Revised treasury management policy statement
    - Specified and non-specified investments schedule
    - Treasury management scheme of delegation and role of the section 151 officer

## Ethical Investment Policy

3. Some members have expressed interest in having a focus on ethical investments, in particular avoiding any investment in fossil fuels. At its meeting on 9th December Audit & Governance Committee resolved that this report should include;
    - information on CYC's own investments;
    - information gathered from other Local Authorities and;
    - details of North Yorkshire Pension Fund investments policy and investment in fossil fuels.

4. Whilst the Council does not have any direct investments with fossil fuel companies it could, indirectly, be investing in fossil fuels. The Council only invests in money market funds or directly with banks and building societies but has very little information as to where these counterparties place their funds. A money market fund is comprised of short-term securities representing high-quality, liquid debt and monetary instruments. Money market funds are widely regarded as being as safe as bank deposits yet

providing a higher yield. Unlike stocks, money market fund investments are always worth the same. What changes is the rate of interest they earn.

5. It is important to note that the surplus funds the Council has available are predominantly of a short term duration as they depend on the cash flow of payments in and out of the authority. This means that they are of little interest to anyone other than bank type institutions where they help with their liquidity. They would not, for example, be attractive to any other institutions looking for longer term investment funding. There is never any direct Council investment in companies and there is no trading on the stock market.

6. The Council has not previously considered ethical criteria when determining investment policy. The financial investment environment can be very fast moving and ethical criteria can be difficult to evaluate objectively as they are, to a certain degree, a matter of individual judgement. Our counterparty list is relatively small, due to the high credit criteria we use, and ethical considerations would need to be applied to this list after considering creditworthiness. Restricting this small list even further may impact the rate of return the Council is able to achieve.

7. Some information is available on ethical rating schemes. The website http://www.yourethicalmoney.org assesses the ethical "ratings" of banks and building societies. The table below shows their assessment of the main institutions on our counterparty list using a trafflc light system (ie green is better, red is worse).

| Bank | Green / Ethical Products | Ethical lending or insurance | Human Rights | Financial Exclusion | Envt | Carbon Neutral | Equal Opps |
|---|---|---|---|---|---|---|---|
| Barclays | Y | Red | Red | Green | Green | Red | Green |
| RBS | Y | Amber | Amber | Amber | Green | Red | Green |
| Santander | Y | Amber | Green | Amber | Green | Red | Green |
| Handelsbanken | Y | Red | Red | Red | Amber | Red | Green |
| HSBC | Y | Amber | Red | Amber | Green | Red | Green |

8. A number of other Local Authorities have made ethical statements within their Treasury Management Strategy. However, these are essentially statements that outline their aspirations rather than having any direct impact on investment strategy. A few examples include;

Cambridge City Council

> “Where consistent with our fiduciary responsibilities the Council will avoid direct investment in institutions with material links to environmentally harmful activities including fossil fuels”

Oxford City Council

> “The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council’s mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:
> a. Human rights abuse (eg child labour, political oppression)
> b. Environmentally harmful activities (eg pollutions, destruction of habitat, fossil fuels)
> c. Socially harmful activities (eg tobacco, gambling)”

Bristol City Council

> “Wherever possible, the City Council wishes to make investments in ways that are consistent with the mission and values of the City council as expressed in the Corporate Plan…The Council will not knowingly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission or values of the City Council”.

South Kesteven Council and Brighton & Hove City Council

> “The Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:
> - encouraging those institutions to adopt and publicise policies on socially responsible investments;
> - requesting those institutions to apply council deposits in a socially responsible manner.”

9. The North Yorkshire Pension Fund (NYPF) Investments Policy is attached at Annex B of this report. Section 8 deals with Socially Responsible Investments. Further information on the investment by the fund in fossil fuels is set out in the table below and accounts for approximately 3% of the total fund.

| Security Description | Market Value |
|---|---|
| ANGLO AMERICAN | 6,345,627 |
| APACHE CORP | 1,164,140 |
| ASIA RESOURCE MINERALS PLC | 1,828,208 |
| BHP BILLITON PLC | 1,883,780 |
| CHEVRON CORP | 3,245,029 |
| CONOCOPHILLIPS | 763,671 |
| DRAGON OIL | 888,000 |
| EOG RESOURCES | 3,996,000 |
| EXXON MOBIL CORP | 2,947,128 |
| GLENCORE PLC | 8,787,111 |
| HESS CORP | 1,034,043 |
| INPEX CORPORATION | 3,545,190 |
| JX HOLDINGS INC | 217,246 |
| MARATHON OIL CORP | 594,432 |
| NOBLE CORP PLC | 461,359 |
| OCCIDENTAL PETROLEUM CORP | 1,268,895 |
| OIL SEARCH LTD | 611,574 |
| RIO TINTO PLC | 13,893,166 |
| SEMPRA ENERGY | 858,980 |
| TOTAL SA | 5,535,366 |
| TULLOW OIL | 888,000 |
| ULTRA PETROLEUM | 3,330,000 |
| VEDANTA RESOURCES PLC | 8,670,330 |
| Total | 72,757,274 |

North Yorkshire Pension Fund investment in oil, gas and coal

10. All pension fund investments are made by external investment management companies, all of which are signatories to the UN PRI (principles for responsible investment) which states:

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.

- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

11. Any employer wishing to pursue an ethical investment strategy which goes beyond this is free to approach the Pension Fund Committee with a proposal. However, it is worth noting that any partitioning of assets separate from the comingled assets of NYPF's 120 other employers will inevitably result in a significantly higher cost of investment as economies of scale are lost. In addition, the consultation on pooling of LGPS investments means that options for investing in a bespoke way will soon be replaced by a different opportunity set once these pooling arrangements have been established, so now may not be the best time to be pursuing a divergent investment strategy.

**Consultation**

12. 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 process of consultation, details of which are outlined in the budget reports to be considered by Executive on 11th February 2016.

**Options**

13. It is a statutory requirement for the Council to operate in accordance with the CIPFA Prudential Code.

**Council Plan**

14. 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 whilst operating in a financial environment that safeguards the Councils funds. 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

### Financial

15. The revenue implications of the treasury strategy are set out in the Revenue Budget report to be considered by Executive on 11th February 2016.

### Legal Implications

16. Treasury Management activities have to conform to the Local Government Act 2003 and statutory guidance issued under that Act, 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.
17. In 2014 the Local Government Association (LGA) obtained legal opinion, on behalf of its members, on the duties owed by local government pension funds and the factors they can legitimately take into account when making investment decisions. The principles can apply equally to investment decisions made by local authorities generally. Public bodies making investments have both fiduciary duties and public law duties (which are in practice likely to come to much the same thing).
18. The power to invest must be exercised for investment purposes, and not for any wider purposes. Investment decisions must therefore be directed towards achieving a wide variety of suitable investments, and to what is best for the financial position of the fund (or the Council in the case of wider investment decisions) balancing risk and return in the normal way. This is consistent with the Government Guidance issued under the 2003 Act which indicates that investment decision should be made on the basis of security, liquidity and then yield in that order.
19. The Council could only use other considerations (including those around fossil fuels and other ethical considerations) to choose between investments which were otherwise broadly equivalent in terms of security, liquidity and yield.
20. However, so long as that remains true, the precise choice of investment may be influenced by wider social, ethical or environmental considerations, so long as that does not risk material financial detriment to the fund. In taking account of any such considerations, the administering authority may not prefer its own particular interests to those of other scheme employers, and should not seek to impose its particular views where those would not be

widely shared by scheme employers and members (nor may other scheme employers impose their views upon the administering authority).

**Other Implications**

21. There are no HR, Equalities, crime and disorder, information technology or other implications as a result of this report

**Risk Management**

22. 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.

**Recommendation**

23. Audit and Governance Committee are asked to:
    a. note the issues outlined in the report on ethical investments and consider any recommendation they wish to make to the Executive;
    b. note the Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2020/21 at Annex A.

*Reason: So that those responsible for scrutiny and governance arrangements are properly updated and able to fulfil their responsibilities in scrutinising the strategy and policy.*

| **Contact Details** | |
|---|---|
| **Author** | **Chief Officer responsible for the report** |
| Debbie Mitchell<br>Finance & Procurement Manager<br>Ext 4161<br><br>Sarah Kirby<br>Principal Accountant<br>Ext 1635 | Ian Floyd<br>Director of Customer and Business Support Services |
| | Report approved 29 January 2016 |
| **Wards affected** | All |

**Annexes**
Annex A – Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2020/21

Annex B – NYPF investment policy

**Annex A**

CITY OF YORK COUNCIL

**Executive** **11 February 2016**

Report of the Director of Customer and Business Support Services

# Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2020/21

## Report Summary

1. The purpose of this report is to seek the recommendation of Executive to Full Council for the approval of the Treasury Management Strategy and Prudential Indicators for the 2016/17 financial year.

## Recommendations

2. Executive are asked to recommend that Council approve:
   - The proposed Treasury Management Strategy for 2016/17 including the annual investment strategy and the minimum revenue provision policy statement;
   - The Prudential Indicators for 2016/17 to 2020/21 in the main body of the report;
   - The Specified and Non-Specified Investments schedule (Annex B)
   - The Scheme of Delegation and the Role of the Section 151 Officer (Annex D)
   - The Council's entry into the Framework Agreement and its accompanying schedules for the Municipal Bonds Agency, including the joint and several guarantee
   - Delegation of authority to the Director of Customer and Business Support Services as Section 151 Officer and the Assistant Director for Governance, ICT and Legal as Monitoring Officer to sign those documents, as appropriate, on behalf of the Council
   - Granting the Section 151 Officer delegated authority to agree amendments to the Framework Agreement as appropriate

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

## Background

3. 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.

4. The second main function of the treasury management service is 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.

5. 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

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

8. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. The training needs of treasury management officers is also periodically reviewed.

**Treasury Management Strategy for 2016/17**

9. The treasury managment strategy for 2016/17 covers two main areas:

   Capital Issues
   - The Capital Programme and Prudential Indicators;
   - Minimum Revenue Provision (MRP) Policy Statement.

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

10. These elemements cover the statutory and regulatory 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.

**The Capital Prudential Indicators 2016/17 – 2020/21**

11. The Council's capital expenditure plans are the key driver of treasury management activity and are the subject of a separate report on this agenda. The output of the capital programme is reflected in the capital prudential indicators, which 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.

12. The capital prudential indicators (PI) along with the treasury management prudential indicators (PI) are included throughout the report:

    PI 1: Capital expenditure
    PI 2: Capital financing requirement
    PI 3: Ratio of financing cost to net revenue stream
    PI4a&b: Incremental impact of capital investment decisions on council tax and housing rent
    PI 6a: Authorised limit for external debt
    PI 6b: Operational boundary for external debt
    PI 6c: Housing Revenue Account (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 >364 days

13. **Prudential Indicator 1 - Capital Expenditure**. This prudential Indicator is a summary of the Council's capital expenditure plans forming part of this budget cycle. 2015/16 is included as a comparator. Detailed information on the individual schemes is provided in the Capital Monitor 3 and Capital Strategy report.

| Capital Expenditure | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m |
|---|---|---|---|---|---|---|
| General Fund (Non HRA) | 39.5 | 57.5 | 25.0 | 15.6 | 13.0 | 13.5 |
| Housing Revenue Account | 12.0 | 22.8 | 8.3 | 8.3 | 8.1 | 8.0 |
| **Total** | **51.5** | **80.3** | **33.3** | **23.9** | **21.1** | **21.5** |

Table 1: Capital Expenditure

14. Table 1 details the capital expenditure of the Council, based on the Capital Programme Strategy report, excluding other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments. There are no new PFI schemes forecast to be entered into in 2016/17.

15. **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 for capital purposes. Any capital

expenditure above, which has not immediately been paid for and will be funded by borrowing, will increase the CFR.

16. The CFR does not increase indefinitely, because the minimum revenue provision (MRP) is a statutory annual revenue charge, which broadly reduces the borrowing need in line with each assets life. Therefore, the CFR is reduced by this provision to repay debt.

17. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's overall borrowing requirement, these types of scheme include a borrowing facility 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. As set out in paragraph 37 table 7 the projected level of debt is significantly below the CFR over the 5 year period.

18. Table 2 below, shows the Capital Financing Requirement, excluding other long term liabilities:

| Capital Financing Requirement | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m |
|---|---|---|---|---|---|---|
| **Non-HRA CFR** | **183.9** | **205.0** | **201.4** | **197.1** | **193.4** | **189.0** |
| HRA pre settlement | 18.8 | 18.8 | 18.8 | 18.8 | 18.8 | 18.8 |
| HRA settlement | 121.5 | 121.5 | 121.5 | 121.5 | 121.5 | 121.5 |
| **HRA CFR** | **140.3** | **140.3** | **140.3** | **140.3** | **140.3** | **140.3** |
| **Total CFR** | **324.2** | **345.3** | **341.7** | **337.4** | **333.7** | **329.3** |

Table 2: Capital Financing Requirement (CFR)

### Minimum Revenue Provision (MRP) Policy Statement

19. The Council is required to pay off an element of the accumulated General Fund (non-HRA) capital expenditure each year (the 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 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 that is reasonably commensurate with that over which the capital expenditure is

estimated to provide benefits. The options presented are the same as in previous years and set out in paragraphs 21 & 23.

21. Full Council is requested 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.

22. This provides 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 regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);

24. This option provides 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 higher the amount of interest incurred over the period of the loan accordingly, it is deemed as prudent to reduce the period over which the repayments are made.

25. There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in pace).

26. Repayments included in annual PFI or finance leases are also applied as MRP.

**Affordability Prudential Indicators**

27. The prudential indicators mentioned so far in the report cover the overall capital programme and the control of borrowing through the capital financing requirement (CFR), but within this framework prudential indicators are required to assess the affordability of capital investment plans. These provide an indication of the impact of the capital programme investment plans on the Council's overall finances.

28. **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.

| Financing Costs | 2015/16 Estimate % | 2016/17 Estimate % | 2017/18 Estimate % | 2018/19 Estimate % | 2019/20 Estimate % | 2020/21 Estimate % |
|---|---|---|---|---|---|---|
| **Non-HRA** | **11.40** | **12.34** | **13.45** | **13.51** | **12.43** | **12.20** |
| **HRA** | **13.56** | **13.56** | **13.58** | **13.58** | **13.58** | **13.58** |

Table 3: Ratio of financing costs to net revenue stream

29. The estimates of financing costs include current commitments and the proposals in the capital budget report also on this agenda.

30. **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 budget report compared to existing approved commitments and plans. Assumptions are based on the budget figures as set out in the capital and financial strategy reports on this agenda.

| Incremental Impact on Council tax – band D | 2015/16 Estimate £ | 2016/17 Estimate £ | 2017/18 Estimate £ | 2018/19 Estimate £ | 2019/20 Estimate £ | 2020/21 Estimate £ |
|---|---|---|---|---|---|---|
| **Incremental impact** | **16.32** | **22.92** | **28.39** | **6.97** | **6.32** | **5.87** |

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

31. **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 strategy 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 therefore not directly impacted by the Council's capital plans.

| Incremental Impact | 2015/16 Estimate £ | 2016/17 Estimate £ | 2017/18 Estimate £ | 2018/19 Estimate £ | 2019/20 Estimate £ | 2020/21 Estimate £ |
|---|---|---|---|---|---|---|
| **Weekly Housing Rents** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** | **0.00** |

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

**Treasury Management Strategy**

32. The capital prudential indicators set out above ensure that the Council's capital expenditure plans are affordable, sustainable and prudent. The treasury management function ensures that cash is available to meet the Council's requirements in accordance with the Local Government Act 2003 and relevant professional codes.

33. The treasury management function involves both the forecasting of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the prudential / treasury indicators, the current and projected debt positions and the annual investment strategy.

**Current Portfolio Position**

34. The Council's treasury portfolio position at 31st January 2016 is detailed below in table 6:

| Institution Type | Principal | Average Rate |
|---|---|---|
| Public Works Loan Board (PWLB) – Money borrowed from the Debt Mgt Office (Treasury Agency) | £247.1m | 3.6% |
| Market Loans<br>Club Loan – A loan taken in conjunction with 2 other Authorities | £10.0m | 7.2% |
| LOBO Loans (2) – Lender Option Borrower Option | £10.0m | 3.7% |
| **Total Gross Borrowing (GF & HRA)** | **£267.1m** | **3.7%** |
| **Total Investments** | **£106.3m** | |

Table 6: Current position at 31st January 2016

35. The Council had £267.1m of fixed interest rate debt, of which £140.3m was HRA and £126.8m General Fund. The cash balance available for investment was £106.3m.

36. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its total gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2016/17 and the following two financial years. This allows the flexibility to borrow in advance of need but ensures that borrowing is not undertaken for revenue purposes.

37. Table 7 shows that the estimated gross debt position of the Council does not exceed the underlying capital borrowing need. 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.

| | **2015/16 Estimate £m** | **2016/17 Estimate £m** | **2017/18 Estimate £m** | **2018/19 Estimate £m** | **2019/20 Estimate £m** | **2020/21 Estimate £m** |
|---|---|---|---|---|---|---|
| **Gross Projected Debt** | **272.6** | **287.4** | **295.3** | **290.1** | **289.0** | **283.8** |
| Total CFR | 324.2 | 345.3 | 341.7 | 337.4 | 333.7 | 329.3 |
| **Under/(over) Borrowed** | **Under** | **Under** | **Under** | **Under** | **Under** | **Under** |

Table 7: External Debt< Capital Financing Requirement

38. Table 7 shows a gap between actual borrowing and the CFR (driven by the use of internal funds to finance capital expenditure). The decision as to whether to continue to do this will take into account current assumptions on borrowing rates and levels of internal reserves and balances held by the Council. The figures above show an increase in the gap between CFR and external debt before a reduction at which point the gap remains broadly the same based on current estimates, however this will be determined by the S151 officer and the figure above is a current broad assumption. Actual borrowing will be determined by the circumstances that prevail at the time on borrowing rates and levels of cash balances.

**Prudential Indicators: Limits on Authority to Borrow**

39. **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. This amount 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 | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m |
|---|---|---|---|---|---|---|
| Borrowing | 357.7 | 355.3 | 351.7 | 347.4 | 343.7 | 339.3 |
| Other Long Term Liabilities | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 | 30.0 |
| **Total** | **387.7** | **385.3** | **381.7** | **377.4** | **373.7** | **369.3** |

Table 8: Authorised Borrowing Limit

40. Prudential Indicator 6B – Operational Boundary. In addition to the “Authorised Borrowing Limit”, the Operational Boundary is the maximum level of debt allowed for on an ongoing operational purpose. This would in reality 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 | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m |
|---|---|---|---|---|---|---|
| Borrowing | 347.7 | 345.3 | 341.7 | 337.4 | 333.7 | 329.3 |
| Other Long Term Liabilities | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| **Total** | **357.7** | **355.3** | **351.7** | **347.4** | **343.7** | **339.3** |

Table 9: Operational Boundary

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

| HRA Debt Limit £m | 2015/16 Estimate £m | 2016/17 Estimate £m | 2017/18 Estimate £m | 2018/19 Estimate £m | 2019/20 Estimate £m | 2020/21 Estimate £m |
|---|---|---|---|---|---|---|
| **Total HRA** | **145.97** | **145.97** | **145.97** | **145.97** | **145.97** | **145.97** |

Table 10: HRA Debt Limit

**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 Capita Asset Services as its treasury adviser. Part of their service is to assist the Council in formulating a view on interest rates. Table 11 below gives Capita's central view:

| | Bank Rate % | PWLB Borrowing Rates % (including certainty rate adjustment) | | |
|---|---|---|---|---|
| | | 5 year | 25 year | 50 year |
| Mar 2016 | 0.50 | 2.00 | 3.40 | 3.20 |
| Jun 2016 | 0.50 | 2.10 | 3.40 | 3.20 |
| Sep 2016 | 0.50 | 2.20 | 3.50 | 3.30 |
| Dec 2016 | 0.75 | 2.30 | 3.60 | 3.40 |
| Mar 2017 | 0.75 | 2.40 | 3.70 | 3.50 |
| Jun 2017 | 1.00 | 2.50 | 3.70 | 3.60 |
| Sep 2017 | 1.00 | 2.60 | 3.80 | 3.70 |
| Dec 2017 | 1.25 | 2.70 | 3.90 | 3.80 |
| Mar 2018 | 1.25 | 2.80 | 4.00 | 3.90 |
| Jun 2018 | 1.50 | 2.90 | 4.00 | 3.90 |
| Sep 2018 | 1.50 | 3.00 | 4.10 | 4.00 |
| Dec 2018 | 1.75 | 3.10 | 4.10 | 4.00 |
| Mar 19 | 1.75 | 3.20 | 4.10 | 4.00 |

Table 11 – Capita's interest rate forecast

43. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. The 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y/y) though there was a slight increase in quarter 2 to +0.5% (+2.3% y/y) before weakening again to +0.4% (2.1% y/y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, worldwide economic statistics have been weak and financial markets have been particularly volatile. The November Inflation Report flagged up particular concerns for the potential impact on the UK.

44. The Inflation Report was also notably subdued in respect of the forecasts for inflation which was expected to barely get back up to the 2% target within the 2-3 year time horizon. However, once the falls in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI but a second, more recent round of falls in fuel and commodity prices will delay a significant tick up from the current zero rate to around 1 percent by the end of 2016. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. There is considerable uncertainty around how quickly inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate.

45. In the Eurozone, the ECB unleashed a massive €1.1 trillion programme of quantitative easing in January 2015 to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 to run initially to September 2016 but now extended to March 2017. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence. GDP growth rose to 0.5% in quarter 1 2015 (1.3% y/y) but came in at +0.4% (+1.6% y/y) in quarter 2 and +0.3% in quarter 3 (+1.6% y/y). Financial markets were disappointed by the ECB's lack of more decisive action in December and it is likely that it will need to boost its QE programme if it is to succeed in significantly improving growth in the EZ and getting inflation up from the current level of around zero to its target of 2%.

46. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed, though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage was done to the Greek banking system and economy by the resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

47. Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost their majority of seats. An anti-austerity coalition has won a majority of seats in Portugal while the general election in Spain produced a complex result where no combination of two main parties is able to form a coalition with a majority of seats. It is currently unresolved as to what administrations will result from both these situations. This has created nervousness in bond

and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenomenally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;
- There will remain a cost of carry to any new borrowing causing an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

**Borrowing Strategy**

48. As a result of the capital programme the net borrowing is projected to increase by £6.336m over the next 5 years. The CFR (the Council's actual need to borrow) does not necessarily increase by this same amount as a minimum amount of revenue provision is set aside every year in accordance with statutory requirement and this therefore reduces the actual amount that is required to be borrowed.
49. The borrowing strategy takes into account the borrowing requirement, the current economic and market environments and is also influenced by the interest rate forecast. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), 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 remains prudent as investment returns are low and counterparty risk is relatively high.
50. It is therefore beneficial to have a borrowing strategy where consideration is given to taking some longer term borrowing if favourable rates arise and also use some cash reserves. External borrowing will be considered throughout the financial year when interest rates seem most favourable. A target interest rate is 4.50%. 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.
51. Against this background and the risks within the economic forecast, caution will be adopted with the 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.

52. The HRA strategy for borrowing will be the same as the borrowing strategy described above for the whole Council. The HRA Business Plan will guide and influence the overall HRA borrowing strategy.
53. All decisions will be reported to the appropriate decision making body (Executive and Audit and Governance Committee) at the next available opportunity.

**Prudential Indicators – Limits on Borrowing Activity**

54. There are three debt related prudential indicators. The purpose of these are to restrain 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.

| **Interest rate Exposure** | **2016/17 Estimate %** | **2017/18 Estimate %** | **2018/19 Estimate %** | **2019/20 Estimate %** | **2019/20 Estimate %** |
|---|---|---|---|---|---|
| | | | | | |
| | **Upper** | **Upper** | **Upper** | **Upper** | **Upper** |
| **Limits on fixed interest rates based on net debt** | **113** | **109** | **108** | **108** | **108** |

| | | | | | |
|---|---|---|---|---|---|
| **Limits on variable interest rates based on net debt** | **-13** | **-9** | **-8** | **-8** | **-8** |

| **Maturity Structure of current borrowing 2015/16** | | |
|---|---|---|
| | **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

55. Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008, the Council can borrow in advance of need in line with its future borrowing requirements in accordance with the Capital Financing Requirement. Any decision to borrow in advance of need is 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.

56. Borrowing in advance will be made within the constraints of the CIPFA Prudential Code that ensures total gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for the following two financial years.

57. 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

58. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

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

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;

- to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

60. Consideration will also be given to identify if there is any residual potential 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.

61. All rescheduling will be reported to the Executive / Audit & Governance Committee at the earliest meeting following its action.

**Municipal Bond Agency**

62. The establishment of the UK Municipal Bonds Agency was led by the Local Government Association (LGA) following the 2010 Autumn Statement which resulted in higher PWLB rates, greatly increasing the cost of new borrowing and refinancing. The purpose of the Agency is to deliver cheaper capital finance to local authorities. It will do so via periodic bond issues and by facilitating greater inter-authority lending. The Agency is wholly owned by 56 local authorities and the LGA. The Council is a shareholder in the Agency with a total investment of £40k.

63. The Agency requires that local authorities borrowing from it enter into its Framework Agreement. The Agreement includes an accession document confirming that the council has the necessary approvals to sign the agreement and the joint and several guarantee to those lending money to the agency in respect of the borrowing of all other local authorities from the Agency.

64. Although the Council has no immediate need to borrow or refinance, entering into the Framework Agreement enables the Council to access funding from the Agency as and when required. Access to the cheapest source of finance will reduce the costs of borrowing.

**Annual Investment Strategy**

**Investment Policy**

65. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

66. In accordance with the above guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

67. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

68. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

69. Investment instruments identified for use in the financial year are listed in annex B under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices.

70. The Council continues to take a prudent approach to investing funds as set out in the Creditworthiness Policy below.

**Creditworthiness Policy**

71. This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modeling approach with credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following 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

72. This approach combines credit ratings, credit watches, credit outlooks in a weighted scoring system which is then combined with an overlay of CDS (Credit Default Swap) spreads 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. 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 part nationalised UK Banks)
- Orange 1 year
- Red 6 months

- Green 100 days
- No colour not to be used

**The yellow category is for UK Government debt or its equivalent (government backed securities) and AAA rated funds*

73. The Capita Asset Services creditworthiness model uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weighting to just one agency's ratings.
74. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and Long Term rating A. 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.
75. All credit ratings are monitored on a daily basis. The Council is alerted to changes to ratings of all three agencies through its use of the Capita's 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.
76. Although sole reliance is not placed on the use of this external service, as the Council uses market data and market information, information on government support for banks and the credit ratings of that supporting government, the suitability of each counterparty is based heavily on advice from Capita.
77. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (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 C. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

**Investment Strategy**

78. 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 (determined by the maximum cash balance in a given year) that stipulate both time and financial limits in order to spread counterparty (credit) risk when investing money with approved counterparties. The matrix is based on the projected average balance for the year.

79. For 2016/17 the average balance is forecast to be between a low point of £32m and high point of £112m. The matrix stipulates use of level 6 (maximum cash balance of between £50m - £60m, note this is the highest matrix Treasury officers feel is prudent to use) that results in a limit of £8m for counterparties with a durational band of 100 days and £15m for counterparties with a durational band of longer than 100 days.

80. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from December 2016. Bank rate forecasts for financial year ends (March) are:

| | |
|---|---|
| 2016/17 | 0.75% |
| 2017/18 | 1.25% |
| 2018/19 | 1.75% |

81. For its cash flow generated balances, the Council will seek to utilise a combination of business reserve accounts (call accounts), short notice accounts, short dated fixed term deposits and money market funds. In addition, the Council will look for investment opportunities in longer dated term deals with specific counterparties that offer enhanced rates for Local Authority investment. All investment will be undertaken in accordance with the creditworthiness policy set out above.

82. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

| | |
|---|---|
| 2016/17 | 0.60% |
| 2017/18 | 1.25% |
| 2018/19 | 1.75% |
| 2019/20 | 2.25% |

83. Therefore for 2016/17, the Council has budgeted for an investment return target of 0.60% on investments placed during the financial year and uses the 7 day LIBID rate as a benchmark for the rate of return on investment.

84. **Prudential Indicator 9** - total principal investment funds invested for greater than 364 days. This limits 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 £15m.

85. 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 startegy are applicable to the Council's overall surplus funds and are also applicable to the HRA.

**Policy on the use of external service providers**

86. The Council uses Capita Asset Services as its external treasury management advisors.

87. 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.

88. 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**

89. Those charged with governance are responsible for the treasury management activities and are clearly defined within the organisation. Attached at Annex D 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**

90. 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, Capita Asset Services. Capita Asset Services offers the Council a comprehensive information and advisory service that facilitates the Council in maximising its investment returns and minimise the costs of its debts.

91. 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.

92. At a strategic level, there are a number of treasury management options available that 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

93. 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 whilst operating in a financial environment that safeguards the Councils funds. 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

### Financial

94. The revenue implications of the treasury strategy are set out in the Revenue Budget report also on this agenda. The capital implications that drive the CFR are set out in the Capital Programme Budget report.

### Human Resources (HR)

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

### Equalities

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

### Legal Implications

97. 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.

**Other implications**

98. There are no crime and disorder, information technology or property implications as a result of this report

**Risk Management**

99. 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.

<table>
<tr><td>Report authors:</td><td colspan="4">Chief Officer responsible for the report:</td></tr>
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<tr><td>Report Approved</td><td>x</td><td>Date</td><td>29th January 2016</td></tr>
<tr><td colspan="4"></td></tr>
<tr><td colspan="4">Wards Affected: Not Applicable</td><td></td></tr>
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**For further information please contact the author of the report**

**Background Papers**

Capital Strategy 2016/17 to 2020/21 report + annexes.

**Annexes**

Annex A – Interest Rate Forecast
Annex B – Specified and Non-Specified Investments categories Schedule
Annex C – Approved countries for investments
Annex D – Scheme of Delegation and the Role of the Section 151 Officer

## Annex A - Interest Rate Forecast 2016-2019

| Capita Asset Services Interest Rate View | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank Rate View | 0.50% | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% |
| 3 Month LIBID | 0.50% | 0.50% | 0.60% | 0.80% | 0.90% | 1.00% | 1.10% | 1.30% | 1.40% | 1.50% | 1.60% | 1.80% | 1.90% |
| 6 Month LIBID | 0.70% | 0.70% | 0.80% | 0.90% | 1.00% | 1.20% | 1.30% | 1.50% | 1.60% | 1.70% | 1.80% | 2.00% | 2.20% |
| 12 Month LIBID | 1.00% | 1.00% | 1.10% | 1.20% | 1.30% | 1.50% | 1.60% | 1.80% | 1.90% | 2.00% | 2.10% | 2.30% | 2.40% |
| 5yr PWLB Rate | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% |
| 10yr PWLB Rate | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.60% | 3.70% |
| 25yr PWLB Rate | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% | 4.10% |
| 50yr PWLB Rate | 3.20% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 3.90% | 4.00% | 4.00% | 4.00% |
| **Bank Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 0.50% | 0.50% | 0.50% | 0.75% | 0.75% | 1.00% | 1.00% | 1.25% | 1.25% | 1.50% | 1.50% | 1.75% | 1.75% |
| Capital Economics | 0.50% | 0.75% | 0.75% | 0.75% | 1.00% | 1.00% | 1.00% | 1.25% | - | - | - | - | - |
| **5yr PWLB Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 2.00% | 2.10% | 2.20% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% |
| Capital Economics | 2.60% | 2.70% | 2.80% | 3.00% | 3.10% | 3.20% | 3.30% | 3.50% | - | - | - | - | - |
| **10yr PWLB Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 2.60% | 2.70% | 2.80% | 2.90% | 3.00% | 3.10% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.60% | 3.70% |
| Capital Economics | 3.35% | 3.45% | 3.45% | 3.55% | 3.65% | 3.75% | 3.85% | 3.95% | - | - | - | - | - |
| **25yr PWLB Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 3.40% | 3.40% | 3.50% | 3.60% | 3.70% | 3.70% | 3.80% | 3.90% | 4.00% | 4.00% | 4.10% | 4.10% | 4.10% |
| Capital Economics | 3.35% | 3.45% | 3.45% | 3.55% | 3.65% | 3.75% | 3.85% | 3.95% | - | - | - | - | - |
| **50yr PWLB Rate** | | | | | | | | | | | | | |
| Capita Asset Services | 3.20% | 3.20% | 3.30% | 3.40% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 3.90% | 4.00% | 4.00% | 4.00% |
| Capital Economics | 3.40% | 3.50% | 3.50% | 3.60% | 3.70% | 3.80% | 3.90% | 4.00% | - | - | - | - | - |

## Specified and Non-Specified Investments Categories **Annex B**

A variety of investment instruments will be used, subject to the credit quality of the institution, to place the Council's surplus funds. The criteria, time limits and monetary limits applying to institutions or investment vehicles are listed 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, treasury officers will review the accounting implications of new transactions 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 |
|---|---|---|
| Debt Management Agency Deposit Facility | UK Sovereign rating | In-house |
| Term deposits – Local Authorities | UK Sovereign rating | In-house |
| Term deposits – banks and building societies | Coded: Orange on Capitas Matrix. | In-house |
| UK Part nationalised banks | Coded: Blue on Capitas Matrix. | In-house and Fund Mangers |
| Banks part nationalised by high credit rated (sovereign rating) countries – non UK | Coded: Blue on Capitas Matrix. | In-house and Fund Mangers |
| Collateralised deposit | Coded: Orange on Capitas Matrix | In-house and Fund Mangers |
| Certificates of deposits issued by banks and building societies covered by UK Government guarantee | Coded: Orange on Capitas Matrix | In-house and Fund Mangers |
| Certificates of deposits issued by banks and building societies | F Coded: Orange on Capitas Matrix | In-house and Fund Mangers |
| UK Government Gilts | Coded: Yellow on Capitas Matrix | In-house buy and hold and Fund Managers |
| Bonds issued by multilateral development banks | Coded: Orange on Capitas Matrix | In-house buy and hold and Fund Managers |

| | | |
|---|---|---|
| Bonds issued by a financial institution which is guaranteed by the UK government | Coded: Orange on Capitas Matrix | In-house buy and hold and Fund Managers |
| Sovereign bond issues (other than the UK govt) | Coded: Orange on Capitas Matrix | In-house buy and hold and Fund Managers |
| Treasury Bills | Coded: Yellow on Capitas Matrix | Fund Managers |
| Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): - | | |
| 1. Government Liquidity Funds | AAA | In-house and Fund Managers |
| 2. Money Market Funds | AAA | In-house and Fund Managers |
| 3. Enhanced cash funds | AAA | In-house and Fund Managers |
| 4. Bond Funds | AAA | In-house and Fund Managers |
| 5. Gilt Funds | AAA | In-house and Fund Managers |
| 6. Property Funds | AAA | In-house and Fund Managers |
| UK Nationalised Banks | UK sovereign rating | In-house and Fund Managers |
| UK Part nationalised Banks | UK sovereign rating | In-house and Fund Managers |

**NON-SPECIFIED INVESTMENTS***:*

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

1. Maturities of ANY period

| **Institution / Counterparty** | **Minimum Credit Criteria** | **Use** | **Max % of total investments** | **Max. maturity period** |
|---|---|---|---|---|
| Term deposits – banks and building societies | Coded: red (6mths) and green (3mths) on Capitas Matrix. | In-house | 100% | 3-6 Months |
| Fixed term deposits with variable rate and variable maturities: -Structured deposits | Coded: orange (1yr) red (6mths) and green (3mths) on Capitas Matrix. | In-house | 40% | 1 Year |
| Certificates of deposits issued by banks and building societies NOT covered by UK Government guarantee | Coded: orange (1yr) red (6mths) and green (3mths) on Capitas Matrix. | In-house buy and hold and Fund Managers | 30% | 1 Year |
| Commercial paper issuance covered by a specific UK Government guarantee and issued by banks covered by the UK bank support package | UK Sovereign rating | In-house and Fund Managers | 30% | 1 Year |
| Commercial paper other | Coded: orange (1yr) red (6mths) and green (3mths) on Capitas Matrix. | In-house | 30% | 1 Year |

| | | | | |
|---|---|---|---|---|
| Corporate Bonds | Coded: orange (1yr) red (6mths) and green (3mths) on Capitas Matrix. | In-house and Fund Managers | 30% | 1 Year |
| Other debt issuance by UK banks covered by UK Government guarantee | UK Government explicit guarantee | In-house and Fund Managers | 30% | |
| Floating Rate Notes: the use of these investments would constitute capital expenditure unless they are issued by a multi lateral development bank | Long-term AAA | Fund Managers | N/A – Capital Expenditure | N/A – Capital Expenditu re |
| Property fund: the use of these investments would constitute capital expenditure | -- | Fund Managers | N/A – Capital Expenditure | N/A – Capital Expenditu re |
| Local Authority mortgage guarantee scheme | Coded: orange (1yr) red (6mths) and green (3mths) on Capitas Matrix. | In-house | | |

## 2. Maturities in excess of 1 year

| | | | | |
|---|---|---|---|---|
| Term deposits – local authorities | -- | In-house | 10% | > 1 year |
| Term deposits – banks and building societies | Coded: Purple (2yrs) or Yellow (5yrs) on Capitas Matrix. | In-house | 10% | > 1 year |
| Certificates of deposits issued by banks and building societies covered by UK Government guarantee | UK Sovereign | In house and Fund Managers | 10% | > 1 year |
| Certificates of deposits issued by banks and building societies covered by the UK government banking support package | UK Sovereign | In house and Fund Managers | 10% | > 1 year |
| Certificates of deposits issued by banks and building societies NOT covered by the UK government banking support package | Coded: Purple(2yrs) or Yellow (5yrs) on Capitas Matrix | In house and Fund Managers | 10% | > 1 year |
| UK Government Gilts | UK Sovereign rating | In-house and Fund Managers | 10% | > 1 year |
| Bonds issued by multilateral development banks | Long term AAA | In-house and Fund Managers | 10% | > 1 year |
| Sovereign bond issues (i.e. other than the UK govt) | Long term AAA | In-house and Fund Managers | 10% | > 1 year |
| Collective Investment Schemes structure as open Ended Investment Companies (OEICs) | | | | |

| | | | | |
|---|---|---|---|---|
| 1. Bond Funds | Long-term AAA | In-house and Fund Managers | | |
| 2. Gilt Funds | Long-term AAA | In-house and Fund Managers | | |

## Approved countries for investments Annex C

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- U.K.
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar

AA-

- Belgium

**Treasury Management Scheme of Delegation** **Annex D**

**(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

**(iii) Audit & Governance Committee**

- receiving and reviewing reports on treasury management policies, practices and activities
- reviewing the annual strategy, annual outturn and mid year review.

**(iv) Director of Customer and Business Support (Section 151 Officer)**

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- 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
- 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
- all operational decisions delegated by the Council to the Director of Customer & Business Support Services (S151 Officer), who operates within the framework set out in this strategy and through the treasury management policies and practices
- 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.

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# NORTH YORKSHIRE PENSION FUND

# STATEMENT OF INVESTMENT PRINCIPLES

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**1.0 INTRODUCTION**

1.1 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require administering authorities to prepare, publish and maintain a Statement of Investment Principles (SIP). This document is the SIP of the North Yorkshire Pension Fund (NYPF) for which North Yorkshire County Council (NYCC) is the administering authority. In preparing this Statement consideration has been given to the professional advice received from the various advisers and investment managers of the Fund.

**2.0 INVESTMENT DECISION MAKING PROCESS**

2.1 The Council has delegated all its functions as the administering authority of NYPF to the Pension Fund Committee (PFC). The Corporate Director Strategic Resources, who reports to the Chief Executive, has day to day control of the management of all aspects of the Fund's activities.

2.2 The PFC determines the investment policy of the Fund and has ultimate responsibility for the investment strategy. The committee undertakes its responsibilities through taking appropriate advice from external advisers. Scheduled meetings take place each quarter with additional meetings convened as required.

3.0 **TYPES OF INVESTMENTS TO BE HELD**

3.1 The following categories of investment have been approved as suitable for the NYPF.

| | |
|---|---|
| **UK Equities** | provide a share in the assets and profitability of public companies floated on UK stock exchanges. Capital gains and losses arise as share prices change to reflect investor expectations at the market, sector and stock levels. Income is derived from dividends. |
| **Overseas Equities** | are similar to UK Equities but allow greater diversification amongst markets, sectors and stocks. Valuations are affected by exposure to movements in the relative value of the foreign currencies in which investments are made against sterling. Exchange rates are likely to reflect differentials in inflation so should not affect returns materially over the long term, but over the short term currency movements may significantly add to or subtract from returns. Equities are expected to provide high returns compared to other asset classes (the "equity-risk premium"); to address the NYPF deficit position a high proportion of assets will be held in equities. |
| **UK Bonds** | are debt instruments issues by the UK Government and other borrowers. Bonds provide a fixed rate of interest and are usually redeemed at a fixed price on a known future date. Valuations primarily reflect the fixed level of interest, the period to redemption and the overall return demanded by investors. They are vulnerable to rising inflation and correspondingly benefit from falling inflation. |
| **Overseas Bonds** | are similar to UK Bonds but have exposure to currency exchange rate fluctuations. As with UK bonds they are influenced by local inflation rates. |
| **Index Linked Bonds** | are bonds that provide interest and a redemption value directly linked to a measure of inflation, usually the Retail |

Price Index or a similar index. The returns from this asset class act as a useful proxy for movements in liability values.

**Diversified Growth Funds** are an alternative way of investing in shares, bonds, property and other asset classes. These funds are managed by specialist multi-asset managers and target returns slightly below that of equities but with significantly reduced volatility due to the diversification of their constituent parts.

**UK Property** is an investment in buildings, indirectly through pooled vehicles. Capital gains and losses occur as prices fluctuate in line with rental levels and investor demand. Income is generated from rents collected from tenants. The nature of rental agreements gives property some of the characteristics of bonds, whilst growth and inflation provide some of the characteristics of equities. It is, therefore, a useful diversifying asset class.

**Derivative Instruments** such as options and futures are mechanisms through which the Fund can be protected from sudden changes in share prices or exchange rates. Although not income producing they can result in capital gains and losses. They may be used to hedge the Fund's exposure to particular markets.

**Cash** is invested in authorised institutions in accordance with the treasury management policy of the Council under the terms of a Service Level Agreement and attracts interest at market rates.

## 4.0 BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

4.1 The LGPS regulations require that administering authorities should "have regard to the need for diversification of investments" in order to reduce the risk of over concentration in one or more asset classes where performance may be highly correlated. The aim of diversification is to reduce short term volatility, particularly to mitigate the negative effects of one asset class or market performing badly. Property (2012) and Diversified Growth Funds (2013) are the most recent additions to further address this issue.

4.2 The Investment Strategy Review, carried out periodically, establishes a benchmark asset mix against which actual Fund performance can be measured. The last Review took place in 2013. This provides a framework designed to produce the returns the Fund requires over the long term to meet its future liabilities. Each asset class is allocated a range and rebalancing takes place when values stray beyond them due to market conditions. Further rebalancing may take place based on strategic views of the Fund's advisers.

4.3 The largest proportion of the Fund's investments are in equities which is aimed at growing the value of assets over the long term. Other return seeking asset classes complement this goal, with the allocation to liability matching assets providing a measure of protection against rising liability valuations.

4.4 The range of permitted investment in each asset class, expressed as a percentage of the Fund is as follows:

| | Minimum % | Maximum % |
|---|---|---|
| Equities | 50 | 75 |
| Diversified Growth Funds | 5 | 10 |
| Property | 5 | 10 |
| Fixed Income | 15 | 30 |

4.5 Each asset class is sub-divided into two or more mandates with different investment managers and operating to different benchmarks, further increasing the diversification of the Fund's investments.

**5.0 RISK**

5.1 The Fund's custodian, BNY Mellon, holds the assets of the Fund that are invested on a segregated basis. Assets invested through pooled funds are held by the Funds investment managers. Agreements are in place protecting the Fund against fraudulent loss and in addition regular checks are undertaken by independent auditors of the custodian's and investment managers' systems. These organisations have internal compliance teams which also monitor and report on risk. Cash balances belonging to the Fund are held and invested in accordance with a Service Level Agreement with NYCC. Risk is further controlled through continuous monitoring and periodic reviews of the custodial and investment management arrangements.

5.2 The LGPS Management and Investment of Funds Regulations 2009 set out certain restrictions as to individual investments, which are intended to limit the risk exposure of an LGPS Fund. The Fund's asset risk is reduced through diversifying investments within these limits, across asset classes, geographical areas, market sectors and at the stock specific level. Investment Management Agreements include further restrictions on the investment processes managers are required to follow.

5.3 The Investment Strategy aims to ensure that the Fund has enough Assets to pay the benefits earned by scheme members. An Asset Liability Modelling study undertaken by the Fund's Investment Consultant looked at the risk and reward of the current (and possible alternative) asset allocations compared with the actual liabilities of the Fund arising from the 2013 Triennial Valuation. The associated workshops explored the risk/reward relationship and the most appropriate asset allocation strategy. The results of this exercise form the basis of the investment benchmark.

5.4 Ongoing monitoring of the Fund's risk profile takes place including reassessing its appropriateness when the Investment Strategy is reviewed at the quarterly PFC meetings or as appropriate. Close regard is paid to the ongoing risks which may arise through a developing mismatch, over time, between the assets of the Fund and its liabilities, together with the risks which may arise from any lack of balance/ diversification of the investment of those assets.

**6.0 EXPECTED RETURN ON ASSETS**

6.1 The long-term objective of the Investment Strategy is to have sufficient money available to meet the cost of future pension payments. The Asset Liability Modelling study described in **paragraph 5.3** establishes an expected level of return and is incorporated into each Triennial Valuation and the associated Funding Strategy Statement (FSS).

6.2 The expected return on assets at the Fund level is a blend of the benchmarks for the individual investment managers and their mandates. All of the Fund's assets are actively managed by external investment managers, each with their own performance target. This equates to an out-performance target over liabilities (calculated on a gilts basis) of 2.4%; this return expectation is one of the key assumptions used in determining employer contributions at the Triennial Valuation.

**7.0 REALISATION OF INVESTMENTS**

7.1 The majority of the Fund's investments are in fixed interest securities, equities and other investments that are quoted on recognised stock markets and may quickly be realised if required. Less than 1% of investments are in illiquid asset classes.

## 8.0 SOCIALLY RESPONSIBLE INVESTMENTS

8.1 The PFC takes the view that its overriding obligation is to act in the best financial interests of the Scheme and its beneficiaries.

8.2 However, as a responsible investor, NYPF wishes to promote corporate social responsibility, good practice and improved performance amongst all companies in which it invests. The Fund therefore monitors investee companies to ensure they meet standards of best practice in relation to their key stakeholders.

8.3 The Fund considers that the pursuit of such standards fully aligns the interests of Fund members and beneficiaries with those of stakeholders and society as a whole over the long term. In furtherance of this policy, the Fund supports standards of best practice on disclosure and management of corporate social responsibility issues by companies and pursues constructive shareholder engagement with companies on these issues consistent with the Fund's fiduciary responsibilities.

8.4 In accordance with this policy, the Fund will seek where necessary to use its own efforts, those of its investment managers, and alliances with other investors, to pursue these goals. To this end the Fund is a member of the Local Authority Pension Fund Forum (LAPFF).

8.5 In addition, the Fund continues to pursue an active corporate governance policy, including using its voting rights, in accordance with its own policies, as determined from time to time (see **paragraph 9** below).

## 9.0 SHAREHOLDER GOVERNANCE

9.1 The policy on corporate governance is that NYPF has instructed Pension Investment Research Consultants Limited (PIRC) to execute voting rights for all segregated UK Equities held by the Fund, and non UK where practicable. Votes are executed by PIRC according to predetermined Shareholder Voting Guidelines agreed by the PFC, available on www.nypf.org.uk.

9.2 The scope of the policy described in **paragraph 9.1** above is periodically reviewed with the intention of extending the geographical range where NYPF's interest can be voted.

## 10.0 STOCK LENDING

10.1 The Fund has not released stock to a third party under a stock lending arrangement within a regulated market during the financial year 2013/14 or in any previous years.

## 11.0 COMPLIANCE WITH GUIDANCE FROM THE SECRETARY OF STATE

11.1 The original Myners Review in 2001 established 10 principles of investment for defined benefit schemes. In October 2008, the Government published their response to consultation on updating the Myners Review and restructured the original principles into 6 new high level principles, provided guidance to pension funds on recommended best practice for applying the principles, and identified tools to provide practical help and support to trustees and their advisers.

11.2 NYPF carried out a self-assessment of its position, supported by a review by an independent professional observer, and implemented arrangements in order to address the principles. The extent to which NYPF has adopted the investment principles is described in the following paragraphs.

**Effective decision making – full compliance**

11.3 Administering authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation, and those persons or organisations should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

**Clear objectives – full compliance**

11.4 An overall investment objective(s) should be set out for the Fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

**Risks and liabilities – full compliance**

11.5 In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

**Performance assessment – full compliance**

11.6 Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

**Responsible ownership – full compliance**

11.7 Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, include a statement of their policy on responsible ownership in the Statement of Investment Principles, and report periodically to scheme members on the discharge of such responsibilities.

**Transparency and reporting – full compliance**

11.8 Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives, and provide regular communication to scheme members in the form they consider most appropriate.

June 2014

Agenda Item 9

CITY OF YORK COUNCIL

**Audit and Governance Committee** **10th February 2016**

Report of the Programme Director, Older Persons' Accommodation

# Update on the Older Persons' Accommodation Programme

## Summary

1. The following summaries the status of the Older Persons' Accommodation Programme:

| | |
|---|---|
| Overall Status | On Target |
| Previous Project Status | On Target |
| Trend | Same |
| Risks | Under control |
| Programme Update | Following the decision of Executive to agree the Programme and, in October, to agree the closure of Grove House & Oakhaven and next steps for Burnholme, the Programme has:<br>a) made timely decisions;<br>b) made appropriate use of its governance and reporting structures;<br>c) implemented the Action Plan endorsed by Audit & Governance Committee in July 2015;<br>d) worked with residents and others to move residents safely;<br>e) developed a phased plan for the re-development of Burnholme and undertake space planning; and<br>f) sought planning permission for the Glen Lodge extension.<br>And is:<br>g) progressing the procurement of a constructor for the Glen Lodge extension; and<br>h) Beginning the procurement of a partner to develop the Oakhaven site as a new Extra Care facility. |

## Recommendation

2. That the Committee review and comment on the update on progress to deliver the Older Persons' Accommodation Programme.

   *Reason: To ensure that the committee is kept updated and engaged on a key programme activity.*

### Background

3. Audit & Governance Committee on 29th July 2015 considered a paper which presented the audit review of the Elderly Person's Home Programme carried out by Mazars and an Action Plan developed in response to the key findings in their report. Members discussed management of the project and the need to ensure that the following issues were addressed in the delivery of the programme:

   a) Ensuring appropriate skills, knowledge and experience were in place, acknowledging that there may be occasions when external advice may need to be sought. Dedicated time should be allocated when CYC staff were carrying out project management work.

   b) Appropriate structures, including Project Boards, to be in place to ensure accountability and transparency.

   c) Clear mechanisms were required to monitor progress, including sign off points during the development of projects to ensure progress was on target and to trigger alerts if problems were identified.

4. At the meeting in July officers gave details of the progress that had been made in implementing the Action Plan and explained the governance arrangements that were now in place and the project management system that was being used. Members were informed of the reporting mechanisms in place. The Gateway points that had been identified would necessitate consideration of alternative options at various stages of the project.

5. The Committee resolved that they would receive six monthly update reports on progress in implementing the action plan.

### Six Month Update

6. Decision making on the Older Persons' Accommodation Programme has been timely:

   a) On 30th July 2015 the Council's Executive approved the Business Case for the Older Persons' Accommodation Programme. This will:

- fund 24/7 care support at Glen Lodge and Marjorie Waite Court Sheltered Housing with Extra Care schemes;
- progress with plans to build a 27 home extension to Glen Lodge, subject to funding and planning permission;
- seek the building of a new Extra Care scheme in Acomb;
- see the procurement of a new residential care facility as part of the wider Health and Wellbeing Campus at Burnholme; and
- encourage the development of additional residential care capacity in York including block-purchase of beds to meet the Council's needs.

b) On 29th October 2015 the Council's Executive resolved to:

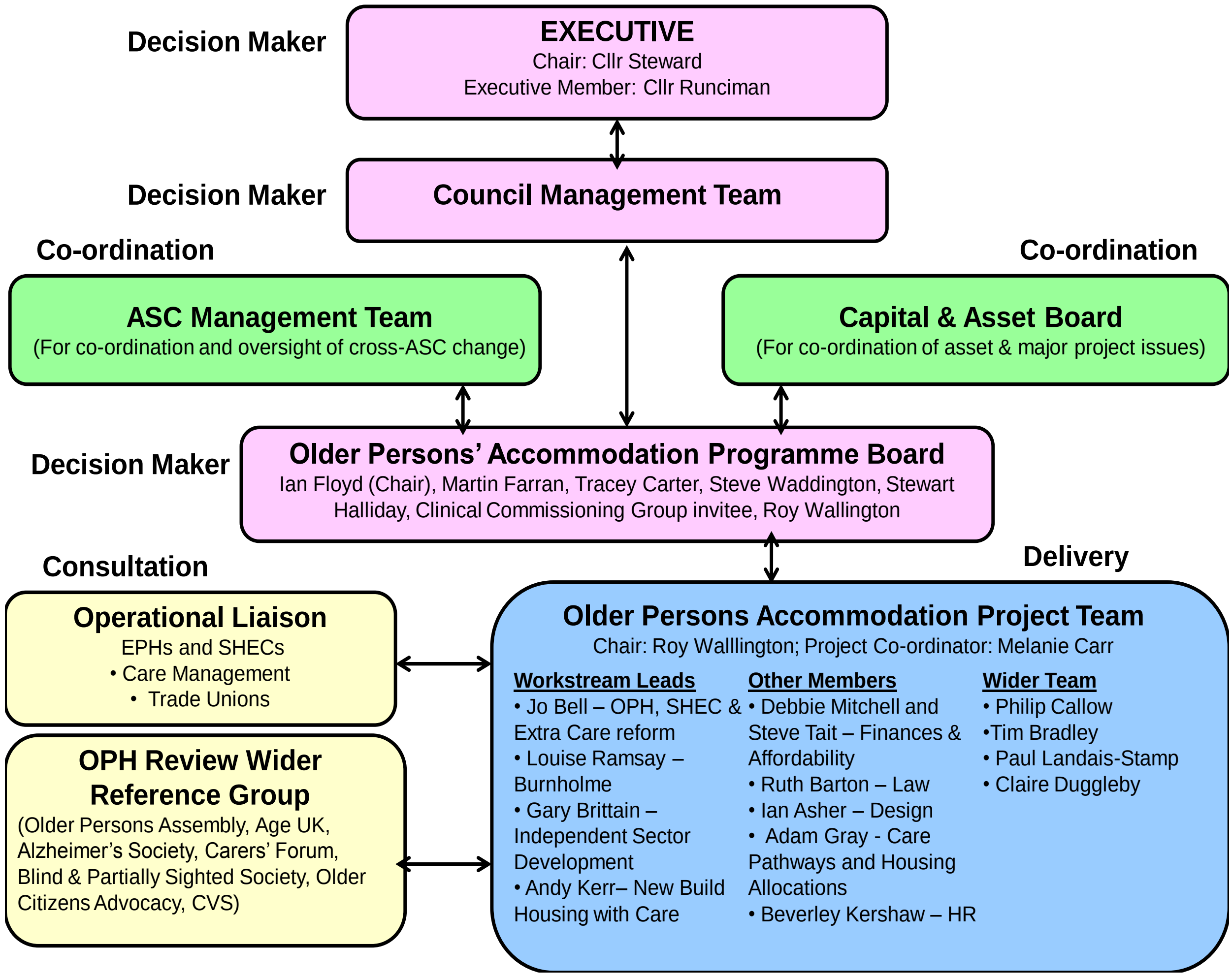
- Note that the Older Persons' Accommodation Programme aims to address the needs and aspirations of older people who need accommodation and care, both now and in the future, equipping York to meet their needs by delivering new Extra Care accommodation and good quality residential and nursing provision which meets modern day standards.
- Receive the outcome of the consultation undertaken with residents, family, carers and staff of Grove House and Oakhaven to explore the option to close each home with current residents moving to alternative accommodation.
- The closure of Grove House and Oakhaven residential care homes and require that residents' moves to their new homes are carefully planned and managed in line with the Moving Homes Safely protocol.
- The Grove House site being sold forthwith in order to generate a capital receipt to support the wider Older Persons' Accommodation Programme.
- The procurement of a partner to develop the Oakhaven site as a new Extra Care facility for Acomb.

c) At the same meeting the Executive also resolved to:

- Note progress towards achieving new uses for the Burnholme site.
- Seek interest from partners to progress continued community and sports use on the site; a residential care home for older people; housing provision; health services delivered in a community setting.
- Agree that Officers develop a spatial plan for the site in order to maximise land use and draw up a development timetable, utilising resources already held in the Older Persons' Accommodation Programme budget.

- Request that a report is brought back to Executive in Q1 2016 to further examine the risks and rewards of the development and approve the approach/s to procurement of relevant partners.

7. Robust governance arrangements are in place and can be summarised as follows:




8. The Programme is currently appropriately resourced with the Programme Director (4 days per week) and Burnholme Project Manager (3 days per week) dedicated to work on this project. Other key work stream leads combine Programme activities with other responsibilities although they have staff resources allocated to their teams to deal with the workload implications.

9. The Action Plan endorsed by Audit & Governance Committee in July 2015 is implemented, as follows:

| | Issue | A&G Action | Progress |
|---|---|---|---|
| 10. | Business case development | It is agreed that we need to take a more systematic approach to | Project Guide now published on CYC intranet. |

| | Issue | A&G Action | Progress |
|---|---|---|---|
| | | business case development and in response to the audit the Council has set out an updated project management approach which follows Treasury good practice and will assure and monitor this via use of the Council's Project Management system, Verto. | Verto remains a key project management tool. |
| 11. | Governance | It is noted that the new Transformation Board structure has gone some way to deliver the appropriate levels of governance and the updated Project Managers' Guide, combined with the Verto reporting process, will ensure that governance is appropriate going forward.<br><br>It is noted that the governance structure for the Older Persons Accommodation Programme is seen by the auditor as being in accordance with good practice. | OPA Programme Board meets regularly:<br><br>17th August 2015<br><br>8th September 2015<br><br>3rd November 2015<br><br>11th December 2015<br><br>11th January 2016.<br><br>Reports to Executive on 30th July 2015 and 29th October 2015.<br><br>Report to Health and Adult Social Care Policy and Scrutiny Committee on 1st December.<br><br>Regular reporting to CMT.<br><br>Update report on major projects to Audit & Governance Committee on 9th |

| | Issue | A&G Action | Progress |
|---|---|---|---|
| | | | December 2015. |
| 12. | Programme management | It is agreed that the Council will further strengthen procurement advice and expertise and endeavour to deliver consistency in programme leadership.<br><br>It is agreed that contingency plans need to be developed for major projects. | Procurement team actively engaged in evaluation of procurement routes for Glen Lodge, Oakhaven Extra Care and Burnholme Health & Wellbeing Campus.<br><br>Contingency plans cover key risks in the OPAP:<br><br>HCA funding for Glen Lodge: replace with recycled RTB receipts and/or commuted s106 monies.<br><br>Oakhaven to be procured externally. Should this project not progress on this site the land at Lowfields and the land to the rear of Acomb Library are alternatives.<br><br>Closure of Grove House and Oakhaven OPH steps forward incrementally; should either fail to close then an alternative home will be the subject of consultation to close. |
| 13. | Risk management | The comments regarding governance of risks are noted, as is the | Project Guide now/to be published on CYC |

| | Issue | A&G Action | Progress |
|---|---|---|---|
| | | acceptance by the auditor that this has improved with the introduction of Verto. The Project Managers' Guide further emphasises the importance of the identification, mitigation, management, oversight and escalation of the risks associated with major projects. | intranet.<br><br>OPAP risks are regularly reviewed, updated and reported, as evidenced by Burnholme report to Executive Committee on 29th October 2015. |
| 14. | Communication | The Council welcome the positive comments of the auditor regarding consultation and stakeholder engagement during the setting of the strategic direction for the Older Peoples Project but notes that this good foundation was allowed to fall into neglect in the later stages of the procurement. | The OPAP Reference Group has met regularly and on:<br><br>8th September 2015<br><br>18th November 2015. |

**Project Progress Update**

15. Progress towards delivering the Programme are summarised below:

Moving Homes Safely

16. We continue to work with the residents of Grove House and Oakhaven to identify their needs and support them to move. All residents have had their care needs assessed and moves have begun. Of the 34 residents who will move, 13 have already done so and the rest will move soon. We will continue to work with residential and extra care providers to manage the vacancies needed to accommodate residents moving.

17. Staff at Grove House and Oakhaven have been assigned to other council care homes, to work in the personal support service and some will leave the service on voluntary redundancy.

Glen Lodge

18. Plans are in place to begin 24/7 care at Glen Lodge starting in February 2016 delivered by the current team and by staff moving across from Grove House and Oakhaven. Changes to service charges are being handled by the housing management team.

19. The planning application for the building of the 27 home extension to Glen Lodge will be determined by Area Planning Sub-Committee on 4th February 2016. We have drawn up a short-list of builders to compete for the construction work and expect work to start on site in May 2016.

Burnholme

20. We are informed by the Department of Education that our application for consent under the Academies Act for the disposal/re-use of Site C at Burnholme is being considered by the Minster. We have also submitted a similar application relating to Sites A and B.

21. We have received the early responses from the Burnholme spatial planning exercise in order to identify how the site will be best used to accommodate the many uses of the land.

22. We will undertake a public information exercise in February 2016 to seek comments on the proposal and spatial plans for the Burnholme site.

23. We will also seek the views of potential providers of care services as to their interest in developing a care home on the site.

Oakhaven Extra Care scheme

24. We continue to progress with the procurement of the new Extra Care facility on the Oakhaven site, seeking an independent sector partner to fund, build and operate the scheme with nomination rights held by the council.

**Next Period**

25. We will brief the Integrated Commissioning Executive in February 2016 on progress relating to the One Public Estate in York and, in particular, the plans to make better use and joined-up use of health and social care assets in the city.

26. We await confirmation of meetings to discuss and develop a Partnership Agreement to guide our work with Tees, Esk and Wear Valleys NHS Foundation Trust and the York Teaching Hospital NHS Foundation Trust to guide our work in developing Health & Wellbeing hubs in the east and

west of the city.

27. We will continue to monitor and evaluate the use of Extra Care accommodation in the city to ensure that it is used by those with the highest/most appropriate care needs. The use of some vacancies to assist with Assess to Discharge will be evaluated and progressed if appropriate.

28. We will commission design work to evaluate the potential for the development of the Haxby Hall site.

29. The programme management budget and the OPAP financial model will be reviewed and updated in Q1 2016, reflecting the outcome from the recent Moving Homes Safely activity as well as current and projected programme management expenditure.

## 30. Programme Plan

| | |
|---|---|
| Tasks & Milestones Status | On Target |
| Previous Tasks & Milestones Status | On Target |
| Tasks & Milestones Status Explanation | A high level project plan is now in place and this will be reviewed and updated as the Programme proceeds and as all project leads are appointed.<br><br>A detailed project plan is now in place for:<br>• The Glen Lodge Extension<br>• The Burnholme Health & Wellbeing Campus.<br><br>A draft project plan is in place the new Extra Care facility in Acomb. |
| Key Milestones | |

| Date | Milestone |
|---|---|
| Q1 2016 | Determine Glen Lodge extension planning application. |
| Q1&2 2016 | Procure partner to deliver new Extra Care facility in Acomb. |
| Q1 2016 | Progress Burnholme proposals:<br>• seek public comments;<br>• test market interest in care home opportunity; and<br>• progress DfE consents. |
| Q2 2016 | Glen Lodge extension starts on site. |

| | |
|---|---|
| Q3/4 2016 | Submit Burnholme phase 1 planning application. |
| Q2&3 2016 | Procure Burnholme care home. |
| Q4 2016 | Submit New Extra Care facility planning application. |
| Q4 2016 | Consideration of Burnholme care home planning application. |
| Q1 2017 | Burnholme phase 1 refurbishment start on site. |
| Q1 2017 | Burnholme care home start on site. |
| Q2 2017 | New Extra Care facility starts on site. |
| Q2 2017 | Complete Glen Lodge extension. |
| Q3 2018 | Complete Oakhaven Extra Care facility. |
| Q4 2018 | Complete Burnholme care home. |

31. **Risks**

| | |
|---|---|
| Risks Status | On Target |
| Previous Risks Status | On Target |

<u>Key Risks</u>

32. Key risks are kept under review and mitigations are pro-actively managed. No key risks currently present a concern.

**00001 Anticipated level of capital receipts not realised**

| | |
|---|---|
| Date Added | 14/04/2015 |
| Description | The existing sites may not realise the anticipated level of capital receipts included in the financial model. |
| Mitigating Action | Work closely with partners and CYC finance to maximise capital receipts. Receipt from Oliver House was significantly above expectation. |

**00002 Lack of funding to deliver all of the elements of the project.**

| | |
|---|---|
| Date Added | 14/04/2015 |

| | |
|---|---|
| Description | There is insufficient funding to deliver all of the elements of the project. |
| Mitigating Action | Alternative sources of funding be identified and secured in order to achieve full project |

**00005 Increase in interest rates**

| | |
|---|---|
| Date Added | 14/04/2015 |
| Description | Increase in interest rates would impact negatively on borrowing. |
| Mitigating Action | Ensure impact is capped or controlled through the contracts. |

**00008 Project does not deliver the right number and type of care places required by the city**

| | |
|---|---|
| Date Added | 14/04/2015 |
| Description | Project does not deliver the right number and type of care places required. |
| Mitigating Action | Modelling of predicted care levels to look at effect of the provision of different numbers of care places by type. |

**00009 Loss of morale for existing EPH staff morale leading to negative impact on service provided to current EPH residents**

| | |
|---|---|
| Date Added | 14/04/2015 |
| Description | Loss of EPH staff morale leading to negative impact on service provided to existing EPH residents. |
| Mitigating Action | Maintain staff morale and focus through regular, open and honest briefings/updates; engagement through EPH Managers and staff groups; investment in staff training, support and development. |

**00011 Lack of appropriately trained staff to deliver quality of care required**

| | |
|---|---|
| Date Added | 14/04/2015 |
| Description | Lack of appropriately trained staff to deliver the type and quality of care required i.e. Dementia and high dependency care. |

| | |
|---|---|
| Mitigating Action | Develop an improvement plan based on best practice and identify service development programme. |

## 00012 Burnholme - Disposal of redundant playing field not approved by Secretary of State

| | |
|---|---|
| Date Added | 09/07/2015 |
| Description | Approval not given for disposal of redundant playing field. |
| Mitigating Action | Partnership working with local schools to ensure that requirements for playing fields are addressed via access to existing facilities. |

## 00014 Burnholme - No long term commitment from NHS Provider Organisations

| | |
|---|---|
| Date Added | 09/07/2015 |
| Description | NHS Provider Organisations are not able to commit to long term lease due to relatively short term contracts (usually up to 5 years). Commissioning bodies therefore need to 'underwrite' by guaranteeing to mandate the premises within their tender/contracts. |
| Mitigating Action | Engagement with CCG as commissioning body.<br>Engagement of a range of NHS partners. |

## 00016 Burnholme - Commercial Delivery Model - Negative affect on the coherence of the whole site vision

| | |
|---|---|
| Date Added | 09/07/2015 |
| Description | The negative affect on the coherence of the whole site vision resulting from the need to procure elements of the whole site through differing commercial models. |
| Mitigating Action | Commissioning of an initial master planning exercise prior to tendering elementary opportunity |

## 00017 Burnholme - Planning Permission not granted / onerous

| | |
|---|---|
| Date Added | 09/07/2015 |
| Description | Inability to secure planning permission for development of suitable size for financial viability |

| | |
|---|---|
| Mitigating Action | Early site master planning and pre-submission engagement |

## 00018 Burnholme - Phasing & Construction Conflict

| | |
|---|---|
| Date Added | 09/07/2015 |
| Description | Need to procure elements of the Burnholme development through different commercial models leads to phasing and construction conflicts. |
| Mitigating Action | Consider in deliberations regarding commercial options. |

**Contact Details**

<table>
<tr><td>Author:</td><td colspan="4">Chief Officer responsible for the report:</td></tr>
<tr><td rowspan="2">Roy Wallington<br>Programme Director, Older Persons’ Accommodation<br>Tel: 01904 552822<br>Email: roy.wallington@york.gov.uk</td><td colspan="4">Martin Farran,<br>Director of Adult Social Care<br>Tel: 01904 554045</td></tr>
<tr><td>Report Approved</td><td>✓</td><td>Date</td><td>28th Jan 2016</td></tr>
<tr><td colspan="5">Specialist Implications Officer(s)<br>Legal – Ruth Barton (Ext 1724)<br>Finance – Debbie Mitchell (Ext 4161) and Steve Tait (Ext 4065)<br>Property – Philip Callow (Ext 3360) and Ian Asher (Ext 3379)</td></tr>
<tr><td colspan="3">Wards Affected: List wards or tick box to indicate all</td><td>All</td><td>✓</td></tr>
<tr><td colspan="5">For further information please contact the author of the report</td></tr>
</table>

## Plan: CYC Homes and Sites included in the OPAP


CBSS
Asset & Property Management

Older Person's Accommodation Programme Sites

N
W E
S

SCALE 1:50,000 DRAWN BY: DH DATE: 16/11/2015

Originating Group: Asset & Property Management

Drawing No.

**Audit and Governance Committee** 10 February 2016

Report of the Head of Internal Audit

# Fraud Risk Assessment


## 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.


## Background

2 Fraud is a significant issue for all public sector organisations. Current estimates suggest fraud costs the public purse around £20bn per year. 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.

## Risk Assessment

3 An assessment of fraud risks faced by the council is included at exempt annex 1. This builds on assessments completed in previous years. It indicates the susceptibility of each area to fraud, and shows planned action by the internal audit and counter fraud teams.

## Priorities for 2016/17

4 The assessment has highlighted a number of priorities for work by internal audit (IA) and the counter fraud team (CFT) in 2016/17. These are set out in figure 1, below.

Figure 1 – counter fraud priorities 2016/17

| Area | Team |
|---|---|
| A review of risks and controls relating to cybercrime. | IA |
| Complete implementation of new checks on Right To Buy applications in support of housing services. | CFT |
| Review procedures for the investigation of CTS following the transfer of Housing Benefit fraud investigation to the DWP in March 2016. | CFT |
| Review YFAS controls. | IA |
| Undertake data analysis across partner authorities, to identify potential procurement fraud. | CFT |
| Continue to develop investigation techniques in the area of social care fraud. | CFT |
| Provide fraud awareness training and publicise guidance on reporting theft to council managers. | CFT |
| Undertake cross-boundary data matching work to identify potential exemption and discount fraud (council tax and NNDR). | CFT |
| Consider a review of fraud risks under outsourced car park cash collection arrangements. | IA |
| Review the robustness of counter fraud checks undertaken as part of council recruitment procedures. | IA / CFT |
| Analyse data on applications for household waste permits in order to identify and prevent false applications. | CFT |

**Consultation**

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

**Options**

6 Not relevant for the purpose of the report.

**Analysis**

7 Not relevant for the purpose of the report.

**Council Plan**

8 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**

9 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**

10 The council will fail to comply with proper practice if counter fraud arrangements are not based on an appropriate assessment of risk.

**Recommendations**

11 Members are asked to;

- comment on the fraud risk assessment and proposed priorities for counter fraud work set out in Annex 1, and figure 1 above.

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

**Contact Details**



| **Author:** | **Chief Officer Responsible for the report:** | | | |
|---|---|---|---|---|
| Max Thomas<br>Head of Internal Audit<br>Veritau Limited<br>Telephone: 01904 552940 | Ian Floyd<br>Director of Customer & Business Support Services<br>Telephone: 01904 551100 | | | |
| | **Report Approved** | ✓ | **Date** | 28 January 2016 |



**Specialist Implications Officers**

Not applicable

| **Wards Affected:** Not applicable | **All** | ✓ |
|---|---|---|

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

**Annexes**

Exempt Annex 1 - Counter Fraud Risk Assessment

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**Audit and Governance Committee** 10 February 2016

Report of the Head of Internal Audit

## Internal Audit Plan Consultation

### Summary

1 The purpose of the report is to seek members' views on the priorities for internal audit for 2016/17, to inform the preparation of the annual audit plan.

### Background

2 Internal audit standards and the council's audit charter require internal audit to draw up an indicative audit plan at the start of each financial year. The plan must be based on an assessment of risk. In coming to a view on the risks facing the council, the opinions of the Audit and Governance Committee and senior council officers are taken into account.

### 2016/17 Audit Plan

3 The council continues to face budgetary pressures while trying to maintain the delivery of high quality services for the public. This inevitably means that procedures must be streamlined and this can effect the operation of controls. To reflect this, the 2016/17 planning process continues the approach adopted over the last few years, by targeting higher risk systems in areas including those:

- where the volume and value of transactions processed are significant, or the impact if risks materialise is very high, making the continued operation of regular controls essential
- areas of known concern, where a review of risks and controls will add value to operations

- areas of significant change where the audit work may focus on (a) direct support to projects (b) a review of project management arrangements, or (c) consideration of the impact of those changes on the control environment for example where the reduction in resources may result in fewer controls.

4 Figure 1 below sets out a number of areas considered to be a priority for internal audit for 2016/17.

5 Members' views are sought about whether:

- the proposed approach to determining priorities for the 2016/17 audit plan, set out above, is reasonable

- there are areas in addition to those listed in figure 1 which should be considered as a priority for review.

*Figure 1 – Priorities for Audit 2016/17*

| **Area** | **Possible Work** |
| --- | --- |
| Corporate & cross-cutting | • Performance Management<br>• Contract Management<br>• Budget Savings<br>• Overtime |
| Information Governance | • Information security checks<br>• Data Quality |
| Main financial systems | • Main Accounting System, Creditors, Debtors<br>• Income Management<br>• Payroll<br>• Housing Rents<br>• YFAS<br>• Council Tax / NNDR<br>• Council Tax Support and Housing Benefits |
| Project Management | • Community stadium<br>• Budget savings<br>• Transformation<br>• New Service Delivery Models<br>• EPHs |
| Adult Social Services | • Better Care Fund<br>• Deprivation of Liberty Assessments |

| | |
|---|---|
| City and Environmental Services | • Traded services<br>• Controls to prevent fraud |
| Children's Services, Education & Skills | • Schools audits including themed audits<br>• Free Early Education funding |
| Communities & Neighbourhoods | • Public Health<br>• Housing Repairs |
| ICT | • PCI DSS<br>• Cybercrime |

**Consultation**

6 This report is part of the ongoing consultation with stakeholders on priorities for internal audit 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 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 appropriate officers and members are not consulted on the content of audit plans.

**Recommendations**

12 Members are asked to;

- Comment on the proposed approach to internal audit planning for 2016/17 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**

| **Author:** | **Chief Officer Responsible for the report:** | | | |
|---|---|---|---|---|
| Max Thomas<br>Head of Internal Audit<br>Veritau Limited<br>Telephone: 01904 552940 | Ian Floyd<br>Director of Customer & Business Support Services<br>Telephone: 01904 551100 | | | |
| | **Report Approved** | ✓ | **Date** | 28 January 2016 |

**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

**Glossary**

| | |
|---|---|
| A&G | Audit and Governance |
| ASC | Adult Social Care |
| CBSS | Customer and Business Support Services |
| CCG | Clinical Commissioning Group |
| CDS | Credit Default Swap |
| CFT | Counter Fraud Team |
| CFR | Capital Financing Requirement |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| CLG | Communities and Local Government |
| CPI | Consumer Price Index |
| DCLG | Department for Communities and Local Government |
| DFE | Department for Education |
| DMT | Directorate Management Team |
| DWP | Department for Work and Pensions |
| ECB | European Central Bank |
| EPHs | Elderly Persons Homes |
| ESG | Environmental, Social and Corporate Governance |
| EU | European Union |
| EZ | Eurozone |
| FSS | Funding Strategy Statement |
| GDP | Gross Domestic Product |
| GF | General Fund |
| HR | Human Resources |
| HRA | Housing Revenue Account |
| LGPS | Local Government Pension Scheme |
| HCA | Homes and Communities Agency |
| IA | Internal Audit |
| ICO | Information Commissioner’s Office |
| KCR | Key Corporate Risk |
| LAPFF | Local Authority Pension Fund Forum |
| LGA | Local Government Association |
| LIBID | London Interbank Bid Rate |
| LOBO | Lender Option Borrower Option |
| MPC | Monetary Policy Committee |
| MRP | Minimum Revenue Provision |
| NAO | National Audit Office |
| NNDR | National Non Domestic Rates |
| NYCC | North Yorkshire County Council |
| NYPF | North Yorkshire Pension Fund |
| OPAP | Older Persons’ Accommodation Programme |
| PCIDSS | Payment Card Industry Data Security Standard |

| | |
|---|---|
| PDR | Personal Development Review |
| PFC | Pension Fund Committee |
| PFI | Private Finance Initiative |
| PI | Prudential Indicator |
| PIRC | Pension Investment Research Consultants Ltd |
| PRI | Principles for Responsible Investment |
| PSAA | Public Sector Audit Appointments |
| PWLB | Public Works Loan Board |
| RTB | Right To Buy |
| SFIS | Single Fraud Investigation Service |
| SHECS | Sheltered Housing with Extra Care Scheme |
| SI | Statutory Instrument |
| SIP | Statement of Investment Principles |
| VfM | Value for Money |
| VRP | Voluntary Revenue Provision |
| TM | Treasury Management |
| YFAS | York Financial Assistance Scheme |