

Notice of a public meeting of the

Audit & Governance Committee

To:	Councillors N Barnes (Chair), Dew (Vice-Chair), Cuthbertson, Fenton, Flinders, Kramm and Lisle Mr Mendus and Mr Bateman
Date:	Wednesday, 8 February 2017
Time:	5.30 pm
Venue:	The George Hudson Board Room - 1st Floor West Offices (F045)

AGENDA

1. **Declarations of Interest**

At this point in the meeting, Members are asked to declare:

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

which they might have in respect of business on this agenda.

2. **Exclusion of Press and Public**

To consider the exclusion of the press and public from the meeting during consideration of Annex 3 to agenda item 8 (Counter Fraud Policy, Strategy and Risk Assessment) 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 of the Audit & Governance Committee held on 20 December 2016.

4. Public Participation

It is at this point in the meeting that members of the public who have registered their wish to speak can do so. The deadline for registering is by **5:00pm on Tuesday 7 February 2017**.

To register please contact the Democracy Officer for the meeting, on the details at the foot of this agenda.

Filming, Recording or Webcasting Meetings

Please note this meeting will be filmed and webcast and that includes any registered public speakers, who have given their permission. This broadcast can be viewed at:

<http://www.york.gov.uk/webcasts>.

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:

http://www.york.gov.uk/download/downloads/id/11406/protocol_for_webcasting_filming_and_recording_of_council_meetings_20160809.pdf

5. Mazars Audit Progress Report (Pages 13 - 24)

This paper presents a report (Annex A) from Mazars detailing progress in delivering their responsibilities as the Council's external auditors.

6. Procurement Report (Pages 25 - 34)

This report, as requested by Members at their meeting on 20 December 2016, sets out an overview of the procurement function.

7. Treasury Management Strategy Statement and Prudential Indicators for 2017/18 to 2021/22 (Pages 35 - 68)

This paper presents at Annex 1, the Treasury Management Strategy Statement and Prudential Indicators 2017/18 to 2021/22.

8. Counter Fraud Policy, Strategy and Risk Assessment (Pages 69 - 112)

This report informs Members about potential fraud risks that the Council is exposed to, and proposed activity to address those risks. The report also details a proposed new counter fraud and corruption policy, and a strategy, for the committee's comments.

9. Internal Audit Plan Consultation (Pages 113 - 118)

The purpose of this report is to seek Members' views on the priorities for internal audit for 2017/18, to inform the preparation of the annual audit plan.

10. Audit and Governance Committee Forward Plan (Pages 119 - 124)

This paper presents the future plan of reports expected to be presented to the committee during the forthcoming year to December 2017.

11. 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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Email – jayne.carr@york.gov.uk

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 (Polish)
własnym języku.

Bu bilgiyi kendi dilinizde almanız mümkündür. (Turkish)

یہ معلومات آپ کی اپنی زبان (بولی) میں بھی مہیا کی جا سکتی ہیں۔ (Urdu)

 (01904) 551550

City of York Council

Committee Minutes

Meeting	Audit & Governance Committee
Date	20 December 2016
Present	Councillors N Barnes (Chair), Dew (Vice-Chair), Cuthbertson, Fenton, Flinders, Kramm and Lisle and Mr Mendus
Apologies	Mr Bateman

41. **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 Flinders declared a disclosable pecuniary interest in agenda item 4 (Programme/Project Management Update in respect of York Central), as a project manager and an employee of Network Rail. He stated that he would refrain from any debate in respect of the York Central project.

Councillor N Barnes declared a pecuniary interest in respect of references to the Community Stadium project referred to in agenda items 4, 6 and 8, as his employer was a sponsor of York City Football Club. He stated that he would vacate the Chair and leave the room during any discussion of this issue during agenda 8 (Mazars Value for Money Review 2015/16), because of the substantial references to the project in this report.

42. **Minutes**

Resolved: That the minutes of the meeting held on 7 December 2016 be approved and then signed by the Chair as a correct record.

43. 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 one member of Council had also registered to speak. Ms Swinburn spoke in respect of the items on the agenda relating to internal and external audit reports. She stated that she had multiple concerns regarding issues within the audit reports, including the Internal Audit Report on School Governance, the Internal Audit Report on the Use of Interims, Specialists and Consultants, staff declarations of interests and officer conflict of interests. Ms Swinburn stated that she was particularly concerned that the 2015/16 annual accounts were to be signed-off without the committee having received the Internal Audit Report on Procurement. She outlined the objection that she had raised to the accounts and gave examples of concerns she had regarding procurement procedures, including the contract with Veritau which she stated was out of date and in breach.

Mr Whiteley spoke in respect of agenda item 5 – Audit and Counter Fraud Monitoring Report, with specific reference to annex 2 of the report – Variations to the 2016/17 Audit Plan. He expressed concern at the 25 days that were to be allocated to carry out a review of governance arrangements at Joseph Rowntree School, as requested by the Assistant Director, Education and Skills. Mr Whiteley stated that, as a former governor of the school, he believed that the school was well managed and appropriately governed, as evidenced by the support it was asked to give to Canon Lee School. He stated that the 25 days allocated to the audit appeared to be excessive and would be seen as a punishment by the school governors, who gave their services as volunteers.

Councillor Warters spoke in respect of agenda item 7 – Mazars Audit Progress Report. He drew Members' attention to the "valid objection" which had been referred to in the report. Councillor Warters stated that that the committee needed to receive the procurement reports from Mazars and from the Internal Auditors as soon as possible, and that a special meeting should be convened in January 2017 to consider these matters.

44. Programme/Project Management Update Report

Members considered a report which presented an update on the project management framework, detailed the areas of the framework that were being strengthened and provided an update on the major or “Large” projects.

Officers gave details of the improvements that had been implemented, as outlined in the report, and of further improvements that were to be implemented in 2017, including developments in the software and offering additional Verto training.

In response to questions from Members, officers confirmed that the Verto system did have the facility to include contract documentation in its document store.

Members asked if officers were confident that the Council had the expertise and capacity to deliver the current projects that were underway. They confirmed this to be the case.

Officers were questioned about the monitoring arrangements that were in place, including the role of CMT and within individual directorates. They gave details of the monitoring processes and reminded Members that the projects were also subject to the scrutiny of internal and external audit. Officers stated that they also valued the challenge that the committee gave through its consideration of the update reports.

Referring to the York Central project, Members requested that an Executive Member be named, in addition to the Lead Member Board.¹

Members suggested that it would be useful to receive examples of the project management arrangements that were in place for those medium size projects which officers identified as being of interest to the committee, and to consider in more detail examples of mitigation that had been put in place to address risk. It was agreed that it would be useful to explore these issues in more detail in a briefing session prior to the presentation of the next quarterly update report.²

Officers were congratulated on the progress that had been made in project management, including the use of Verto for recording progress in all medium and large projects.

Resolved: That the update on the programme and project management be noted.

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

Action Required

- | | |
|--|----|
| 1. Include requested information | DA |
| 2. Provide briefing session ahead of meeting | DA |

45. Audit and Counter Fraud Monitoring Report

Members considered a report which provided an update on progress made in delivering the internal audit workplan for 2016/17 and on current counter fraud activity.

Officers stated that work was on track to complete the audit plan.

Referring to an issue raised under the Public Participation agenda item, officers were asked about the reasons for allocating 25 days to a review of governance arrangements at Joseph Rowntree School. Officers stated that the audit had been requested by the Assistant Director Education and Skills and had been agreed by the Headteacher, Governing Body and Senior Leadership Team. The intention of the review was to help the school and it was not a punitive action. It was agreed that further information on this audit plan variation would be circulated to Members following the meeting.¹

Referring to a further matter that had been raised under the Public Participation item, Members sought confirmation that a contract was in place between the Council and Veritau. They were informed that a current contract was in place and had not been breached.

Referring to the “reasonable assurance” opinion that had been given to the audit on the Use of Interims, Specialists and Consultants, officers were asked if this opinion would be revisited once the investigation into issues arising from the internal audit report on Procurement had been completed. They stated that this would not be the case as the audit had been an assessment of the current arrangements that were in place.

The breaches of the council's financial regulations that had been referred to in paragraph 11 of the monitoring report related to a different time period when the current arrangements had not been in place.

Clarification was sought as to when the audit report on procurement would be available to the committee. Officers stated that, although this report had not been published pending the outcome of the investigation, it would be possible for the committee to receive an overview report on procurement, which outlined how the contract procedure rules and procurement policies were being implemented. The Corporate and Scrutiny Management Policy and Scrutiny Committee had also given consideration to this issue. Members agreed that it would be useful to include this as an agenda item for a future meeting.²

Members expressed concern at the issues identified in the Schools Themed Audit – Information Governance which had been given a limited assurance opinion. They sought assurances that appropriate and timely actions were being taken to address the issues that had been identified. Officers confirmed that most of the targets were due to be implemented by July 2017 so, unless an earlier report was requested, the committee were scheduled to receive an update at their meeting in September 2017. Members were informed that each school was its own data controller but the Local Authority had a role in providing support and guidance. Further work in this area would be included in next year's audit plan. Members expressed concern that five schools had not responded to the audit. They requested that an interim report be presented to the committee outlining the actions that were being taken to address the issues raised and the implications for the Council.³

Resolved: That the progress made in delivering the 2016/17 internal audit work programme, and current counter fraud activity be noted.

Reason: To enable Members to consider the implications of audit and fraud findings.

Action Required

- | | |
|---|----|
| 1. Provide briefing note for circulation to the committee | MS |
| 2. Include on committee's work plan | EA |
| 3. Include on committee's work plan | EA |

46. Mazars Annual Audit Letter 2015/16

Members considered a report from Mazars – the Council's external auditors, which summarised the outcome of their audit of the Council's 2015/16 annual accounts and their work on the value for money conclusion.

Members' attention was drawn to the future challenges, as detailed in Section 5 of the report. It was noted that the major technical change in the need to account for highways infrastructure on a depreciated replacement cost basis, as required by the local government accounting code, was now to be implemented in 2017/18 and not in 2016/17 as had been stated in the report.

The external auditors were asked if they were satisfied with the Council's response to the recommendations arising from the Public Interest Report. They drew Members' attention to their comments on progress, as detailed in Annex A of the report and stated that, in respect of one or two recommendations, they had asked that actions be given priority in the near future although they acknowledged the reasons why they had not yet been completed. Officers gave an update on the situation in respect of recommendations 4 and 5 which related to the issuing of guidance regarding council-owned companies. At the request of Members, details were also given of the proposed arrangements for the single member decision making committee which would act as shareholder and oversee the business of all Council trading companies. It was noted that these meetings would be held in public although the rules in respect of exempt information would apply.

Resolved: That the matters set out in the Annual Audit report presented by Mazars be noted.

Reason: To ensure Members are aware of Mazars' progress in delivering their responsibilities as external auditors.

47. Mazars Audit Progress Report

Members considered a report from Mazars which reported on progress in delivering their responsibilities as external auditors.

The External Auditors detailed the present position in respect of the objection to the accounts, as set out in their written report. They stated that they had co-operated closely with Veritau and had had sight of the findings of the internal audit report. An action plan had been produced and many of the actions had already been completed. The External Auditors stated that they were satisfied that action was being taken. In response to questions from Members, the External Auditors confirmed that certification of completion of the audit would not be affected by the investigation instigated by the Chief Executive. They confirmed that the issue that had been identified related to controls around procurement and stated that all of the findings would be in the public domain. In response to questions from Members they confirmed that the objection was different in nature to the one which had previously resulted in the issuing of a Public Information Report, but that both were significant and required public reporting and action to be taken.

The External Auditors went through the factors that had been taken into account before issuing their unqualified opinion on the Council's financial statements and their Value for Money Conclusion. Their work had included testing to ascertain whether there were material errors in the accounts.

The Chair stated that he had been briefed by the Chief Executive on the position in respect of the Procurement Report. The Chief Executive had also expressed her willingness to meet with the Audit and Governance Committee. Members agreed that it would be useful for such a meeting to be arranged.¹

The External Auditors were asked about the services offered by Mazars to support improvements in governance, including assessment surveys that could be undertaken by the Audit and Governance Committee. The External Auditors outlined some of the services that were available, including a tailored package that would include surveying members of the Audit and Governance Committee. These services would, however, incur a financial cost. The Chair commented that the committee had carried out a self-evaluation survey sometime ago and consideration could be given to repeating a similar exercise in the future.

Resolved: That the matters set out in the progress report be noted.

Reason: To ensure that Members are aware of Mazars' progress in delivering their responsibilities as external auditors.

Action Required

1. Arrange for committee to meet with Chief Executive JC

48. Mazars Value for Money Review 2015/16

[Councillor N Barnes withdrew from the meeting and Councillor Dew took the Chair]

Members considered a report from Mazars which gave consideration as to whether the Council's arrangements over some of the major programmes of work were effective in terms of governance, management of risk and project delivery.

The representatives from Mazars gave details of their findings in respect of the following areas of work, as detailed in Annex A of the report:

- **Overall Programme and Project Management Arrangements** – There had been a substantial improvement in this area. The role of the Audit and Governance Committee in this process was also acknowledged.
- **Community Stadium Project** – The complexity of the programme was acknowledged, as was the change in the scope of the project over time. Good practice had been identified in many areas including governance, project-management, a well-run procurement process and appropriate technical resourcing. It was the view of Mazars that the project was being managed effectively but that more information could have been made available to the public in respect of costs of the project, whilst recognising the need to exercise commercial sensitivity.
- **Older People's Accommodation Programme** – The programme was being managed well and being taken forward in a very effective way.
- **Better Care Fund and Integration** – The Council continued to play its part in this national initiative. As experienced nationally, there remained challenges in this area.
- **Future Shape and Size Initiative/Operating Model for Children's Prevention and Early Intervention Services**

– It was noted that the “Future Shape and Size” initiative had continued some of the themes of the previous Rewiring Public Services programme. The Council had taken the opportunity to clarify the direction of its transformational activity and the work would now be taken forward through individual projects within the new corporate programme.

Referring to recommendations 15 and 16 in respect of the Community Stadium project, Members sought clarification as to the “options on phasing” that could have been considered. The External Auditors stated there may have been a case for the Council to step back and consider the different options that were available. A strength of the new project management arrangements was the gateway approach, as this provided an opportunity to consider different options at stages of the project.

[Councillor N Barnes rejoined the meeting and took the Chair]

The External Auditors were asked if they believed that the Corporate Management Team had sufficient time and independence to effectively carry out their role in respect of project management. The External Auditors stated that there was a risk but, as evidenced in the reports that had been presented to the Audit and Governance Committee, more robust project management arrangements were now in place.

Clarification was sought as to how the implementation of the recommendations detailed in Annex A would be monitored. The External Auditors stated that the actions had been agreed with officers in the relevant areas and would be followed-up through their ongoing audit work. Officers confirmed that the actions would also be monitored internally and progress would be summarised in the Annual Governance Statement. Members requested that an update on progress be presented to the committee at their meeting in July 2017.¹

The External Auditors were questioned about their comments in respect of financial information being made available to the public. They were also asked how other councils handled this issue. The External Auditors stated that their comments had been specific to the Community Stadium project and that City of York Council was not unusual in the approach that it took regarding making information public.

Resolved: That the report be noted.

Reason: To ensure that Members are aware of the issues and the action being taken by the Council.

Action Required

1. Include on committee's work plan

EA

49. Audit and Governance Committee Forward Plan

Members considered a report which presented the future plan of reports expected to be presented to the committee during the forthcoming year to September 2017. Members were invited to identify any further items they wished to add to the Forward Plan.

Clarification was sought as to the mechanism by which changes to the Council's Constitution were implemented, and the committee's role in this process. Officers confirmed that a standard item on changes to the Constitution was included on the committee's work plan. A suggestion was put forward that consideration be given to a review of the Council's Constitution. It was agreed that it would be useful for the committee to receive an overview report outlining the changes that had been made to the Constitution and seeking the Monitoring Officer's view as to how well it was functioning before determining whether a review of the Constitution was required.

Resolved: That the committee's Forward Plan for the period up to September 2017 be approved subject to the inclusion of the following additional agenda items:

- Audit Procurement Report to be presented to the committee as soon as possible after completion of the investigation (February 2017 if possible).
- Report on current procurement arrangements and procedures.
- Report on the actions arising from the School Governance Internal Audit Report and the implications for City of York Council.
- Implementation of progress in addressing actions arising from the Value for Money external audit reports.
- Overview report on the Council's Constitution

Reason: To ensure that the committee receives regular reports and briefings 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.

Councillor N Barnes, Chair

[The meeting started at 5.30 pm and finished at 8.00 pm].

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Audit and Governance Committee8th February 2017

Report of the Deputy Chief Executive/ Director of Customer & Corporate Services

Mazars Audit Progress Report**Summary**

1. The paper attached at Annex A from Mazars, the Council's external auditors, reports on progress in delivering their responsibilities as auditors.

Background

2. The report covers:
 - a) A summary of audit progress
 - b) National publications and other updates

Summary of Audit Progress

3. This section of the report updates members on:
 - a) Progress on 2015/16 Accounts audit work and VFM work undertaken including results of
 - b) Certification of grant claims and returns
 - c) Changes in the audit team
 - d) 2016/17 audit planning
 - e) North Yorkshire Governance Forum
 - f) Final Accounts workshop

National Publications and other updates

4. This section of the report updates Members on key issues emerging from recent national publications, including: 2017/18 work programme and scale of fees (PSAA); Procurement Strategy (PSAA) and report on results of auditors work 15/16 (PSAA).

Consultation

5. The Plan has been consulted on with the relevant responsible officers within the Customer & Corporate Services Directorate prior to it being reported to those members charged with governance at the council.

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. There are no implications to this report.

Risk Management

10. Not relevant for the purpose of the report

Recommendations

11. Members are asked to:

- a) note the matters set out in the Progress report presented by Mazars;

Reason

To ensure Members are aware of Mazars progress in delivering their responsibilities as external auditors.

Contact Details

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

Emma Audrain
Technical Accountant
Corporate Finance

Ian Floyd
Deputy Chief Executive/ Director of CCS

**Report
Approved**



Date 27 January
2017

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

None

Annexes

Annex A - Mazars CYC Audit Progress Report February 2017

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Audit Progress Report

City of York Council



February 2017



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Audit progress

Procurement issues report

At the meeting of the Audit and Governance Committee on 20 December 2016 we explained that we would not be able to issue our Procurement Issues Report as a result of actions being taken by the Council. That remains the case and we will update the Committee when the position changes.

Certification of claims and returns

Work on the 2015/16 Housing Benefits Subsidy Claim is completed, and we certified the claim before the Department of Work and Pensions deadline of 30 November 2016.

This is now the only claim remaining part of the national arrangements managed by Public Sector Audit Appointments Ltd (PSAA), successor to the Audit Commission. As the Council's appointed auditor, we acted as an agent of PSAA. Each year auditors must report the results of our certification work to those charged with governance. For 2015/16 the only claim or return within this regime was the Housing benefit subsidy return.

Results of certification work 2015/16

In 2015/16 the prescribed tests for our Housing benefits work were set out in the HBCOUNT module and BEN01 Certification Instructions issued by PSAA. 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.

City of York Council's 2015/16 Housing benefit subsidy return was submitted without amendment and with a qualification letter as set out below.

Claim or return	Value of claim	Amended	Qualified
Housing benefit subsidy	£42,084,339	No amendments.	One minor issue reported as an observation.

We did not make any formal recommendations or highlight any significant issues for improvement.

Certification fees

PSAA 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 2015/16 work.

Claim or return	2015/16 indicative fee	2015/16 final fee	2014/15 final fee
Housing benefit subsidy	£11,679	£11,679	£15,220

Changes in the audit team

We have made a change within the audit team.

Keith Illingworth, Assistant Manager is taking over from David Hurworth as the team leader on the audit with immediate effect, following an internal reorganisation within Mazars.

Keith has recently joined Mazars from KPMG, and previously worked on the external audit of City of York Council when at the Audit Commission. This should help ensure a smooth transition. Keith will lead the detailed work on the financial statements.

2016/17 audit planning

Planning of the 2016/17 audit is underway. The intention is to present our Audit Strategy Memorandum to the Audit and Governance Committee on 5 April 2017, which will set out our assessment of the audit risks and our plans to address them, relating to both our opinion on the financial statements and our Value For Money (VFM) conclusion .

A major technical change that was expected to impact on the 2016/17 accounts has now been deferred by CIPFA. This related to accounting for highways infrastructure on a depreciated replacement cost basis. It is now unclear when the changes required might now take effect. We will keep this position under review.

North Yorkshire Governance Forum

The next meeting of our Governance Forum, targeted at Chairs and Vice Chairs of Audit Committees and officers, is planned for Friday 3 February 2017. The agenda includes topical items on Cybercrime and Health and Social Care. Members and officers have been invited to this event.

Final accounts workshop

As in previous years, we are running an annual final accounts workshop for local authorities, designed to help ensure the final accounts process goes as smoothly as possible. This workshop is being held in February 2017; we have invited officers to ensure that the Council is represented at this event.

National publications and other updates

National publications and other updates	
1	2017/18 work programme and scale of fees, PSAA, October 2016
2	Procurement strategy, PSAA, December 2016
3	Report on the results of auditors' work 2015/16: Local government bodies, PSAA, December 2016

1. 2017/18 work programme and scale of fees, PSAA, October 2016

The consultation sets out the work that auditors will undertake at principal local government and related bodies for 2017/18, with the associated scale fees.

There are no changes to the overall work programme for 2017/18. PSAA therefore proposes that scale fees are set at the same level as the fees applicable for 2016/17. These fees reflect the significant reductions made to scale fees since 2012/13. The consultation ended on 12 January 2017.

<http://www.psa.co.uk/audit-and-certification-fees/201718-work-programme-and-scales-of-fees/>

2. Procurement strategy, PSAA, December 2016

As previously reported to the Audit and Governance Committee, from 2018/19 onwards, local authorities will be required to appoint their own auditor. A collective procurement option is available via PSAA who published their procurement strategy on 21 December 2016. There is also a list of authorities that have signed-up to the collective procurement on the website. City of York Council is on this list.

<http://www.psa.co.uk/supporting-the-transition/appointing-person/procurement-strategy/>

<http://www.psa.co.uk/supporting-the-transition/appointing-person/opted-in-authorities/>

3. Report on the results of auditors' work 2015/16: Local government bodies, PSAA, December 2016

Auditors of 96% of councils were able to issue the opinion on the accounts by the statutory deadline of 30 September 2016.

PSAA's conclusions in relation to local authorities included that "The timeliness and quality of financial reporting for 2015/16, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies. The number of principal bodies that received an early unqualified audit opinion (by 31 July) doubled compared with 2014/15. In spite of the challenges they are facing, principal local government bodies are working hard to maintain high standards of financial reporting. The latest results of auditors' work on the financial year to 31 March 2016 show a good position for the majority of organisations."

<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

Contact details

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

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Audit & Governance Committee**8 February 2017**

Report of the Deputy Chief Executive/ Director of Customer & Corporate Services

Procurement**Purpose of Report**

1. At the Audit & Governance Committee meeting on the 20th December 2016 members requested a further report providing an overview of the procurement function.

Analysis**Overview of procurement team and process**

2. Procurement is the process of acquiring goods, works and services from third parties to deliver agreed outcomes. The process compares different services and prices to enable the council to select the best offer that meets its needs. The result is a contract, with a clear specification, price and a set of terms and conditions.
3. The council spends approximately £140m on goods and services during an average financial year, with around 600 individual purchase orders raised each month. We use an average of 2,700 suppliers during the year and there are 300 entries on the contract register at any one time. There are 452 officers across the council with delegated authority to make purchases on behalf of the council.
4. To set this in context, there are 9 members of procurement team and this includes the finance & procurement manager and 1 compliance officer. At the time of writing (early January) the team were supporting 98 separate procurement exercises ranging in value from £20k (CCTV at Hazel Court) to £45m (Park & Ride). Some further detail on some of the recent exercises completed is included in annex one of this report.
5. York, along with most other councils in the Yorkshire & Humber area, operates a category management approach to procurement. This essentially means that

the team is structured to reflect the categories of goods and services we buy, rather than the directorates who buy them, ensuring a joined up approach to supplier management and expenditure across the council.

6. All councils in the region use a common system to advertise tender opportunities, called Yortender. This system allows any supplier to register on the system and receive alerts to let them know when tenders are advertised. It also allows us to meet the requirements of the Local Government Transparency Code as it is available for anyone to view the current contract register and tender opportunities. Training on how to use the system is available for any supplier, but priority is given to local suppliers.
7. Much of the day to day procurement responsibility is delegated to managers, with the procurement team involved in higher risk, high value. The projects supported by procurement cover approximately 50% of the Council's total spend on goods and services.
8. In general terms the relevant officer is responsible for managing their day to day procurement activity and is expected to adhere to the contract procedure rules. They have the authority to approach suppliers, get the necessary quotes and authorise the purchase order to receive the goods or services required. In many instances, this is a relatively straight forward process that doesn't require any procurement expertise or involvement.
9. The financial delegation scheme sets out the amounts individual officers can approve. This has recently been reviewed with a view to reducing the amounts officers can spend without senior manager approval. This is to ensure an appropriate scrutiny of spending takes place before it is made.
10. The procurement team will support the process where needed, and, along with the commercial legal team, should always be involved in high value or high risk projects. This is necessary to ensure the council meets its legal obligations and to help manage and mitigate any risk.
11. The team provide regular training sessions, which are available to all staff and take place on a monthly basis. We also offer bespoke training as and when required. A toolkit, which provides advice, guidance and template documents, is available to all staff through the intranet. The team works closely with colleagues from both legal and finance to provide joined up support for front line service managers.

12. A refresh of the Council's procurement strategy is also underway and will be reported to the decision session of the Executive Member for Finance and Performance once completed.

13. To give members an overview of how the procurement process works, the following paragraphs summarise the steps that should be taken for various levels of expenditure.

Spending less than £5,000 (one off or recurring)

- Approach suppliers and try to get at least 3 quotes
- Keep a record of these quotes and the final decision
- Ensure have copy of contract

Spending more than £5,000 but less than £100,000 (one off or recurring)

For smaller value or low risk contracts (usually less than £30k)

- Approach suppliers and get at least 3 formal written quotes.
- Keep a record of these quotes and the final decision
- Ensure have copy of any contract and is recorded on contract register

For any higher value contracts (but still under £100k)

- Formally invite potential suppliers to submit a written quotation
- Receive and evaluate any submissions received.
- Advise all bidders of the outcome
- Keep a record of these quotes and the final decision
- Ensure have copy of any contract and is recorded on contract register

Spending more than £100,000

A formal tender will be required using the YorTender system. OJEU regulations may be applicable. A formal project plan will need to be developed and may need to be referred to Executive at various stages for approval.

Procurement controls and compliance

14. Within the procurement team, there is one post with specific responsibility for monitoring compliance. This post reports directly to the corporate finance & commercial procurement manager to reflect the importance attached to this

function within the council. There is an established process in place to review high value purchase orders on a monthly basis to check that an appropriate procurement route has been followed and to ensure the resulting contract is recorded on the councils contract register. Time permitting, purchase orders of lower values are also checked along with cumulative values each quarter to pick up any areas where several orders are raised in succession. Issues are raised initially with the authorising manager and are escalated to Assistant Director level if no response is received. Our approach is intended to highlight issues to managers and assist them to find a suitable solution going forward. The ultimate aim is to ensure services can be provided to those that need them whilst still achieving best value for the tax payer.

15. Where a breach of contract procedure rules is identified, this is reported to the internal Governance, Risk & Assurance Group. This allows a confidential discussion to take place around the issue and identify potential solutions or mitigating actions to prevent it happening again. There are approximately 25 to 30 breaches identified each year, and the vast majority of these relate to the need to secure 3 quotes. It is important to highlight that these are breaches of internal procedure rules, rather than breaches of legislation. Given the Council has made some significant savings since 2010 across all services, there has inevitably been a reduction in the level of associated back office support. This reduced capacity means resources are stretched over a number of different projects at any one time.
16. The control over expenditure and contracting sits within the line management arrangements of services within the council and officer compliance with the rules as set out is therefore a fundamental aspect of the control environment. Compliance checks are carried out within the procurement team but these are after the event so the onus is rightly on the service incurring the expenditure. Internal Audit also reviews services and investigates other matters.
17. It is important to recognise therefore that whilst there is a robust system in place for authorising expenditure, it is ultimately dependent on the diligence of managers to ensure process is followed. Given the volume of transactions undertaken by the council, it is not possible for finance and procurement to check every transaction. Nor would this be an appropriate use of the professional resource available in these areas. The support services need to focus on complex, high value, high risk areas that need additional, professional support to deliver vital front line services to residents particularly those who are vulnerable.

18. There is a process for agreeing waivers to the contract procedure rules, where appropriate. This could be because it is a highly specialist market with a limited number of suppliers meaning that 3 quotes can not be achieved. All waivers are reviewed, and ultimately approved or rejected, by the corporate finance and commercial procurement manager and the Assistant Director for legal services.
19. The procurement team works closely with the council's legal team on all aspects of procurement law and especially when dealing with major projects and the associated contractual issues that arise. For especially complex or high risk projects external legal advice is sought when necessary to ensure a robust procedure is followed at all times.
20. An email has recently been sent to all managers to remind them of the need to adhere to the procurement rules, including a particular emphasis on ensuring the retention of procurement documentation. This is recognised as something that requires improvement in some areas.

Financial controls and systems

21. The Financial Management System (FMS) is the fundamental financial accounting system used by the council. The system records all financial activity undertaken by the council.
22. The FMS also records all financial decisions made by the council in the form of a budget. The FMS is used to prepare the council's annual accounts, financial returns and for budgetary control. The FMS is made up of Civica Financials, which includes integrated modules for general ledger, debtors and creditors, and is integrated to the purchasing system Civica Purchasing. The 2015/16 audit of this system gave a rating of substantial assurance and commented that user access was limited appropriately and the security and integrity of the main accounting system had been maintained. Suspense account balances were reasonable and detail codes were appropriately regulated and monitored.
23. There is a clear process for managers to use when making purchases. Broadly, the council operates a "no purchase order, no payment" policy although there are agreed exceptions to this, such as for utilities. This means that if a purchase order has not been raised the supplier will not be paid until specific authorisation has been received from the relevant officer. This must be in accordance with the approval limits, and the system will not allow a manager to approve something if they are not authorised to do so.

24. However, our systems do not allow us to link every item of expenditure incurred to a specific contract in place. The procurement compliance checks outlined earlier in the report pick up issues where expenditure has taken place but there is no corresponding live contract on the register. There can be valid reasons for this, as there can often be a short delay between signing of the final contract and including this on the contract register. This is due to limited capacity across all areas of the council.
25. As outlined earlier in the report, the limits for all service managers have recently been reviewed to ensure there is an appropriate level of scrutiny for all significant spending. Therefore, the integrity and accuracy of the councils published accounts is not an issue and is not at risk.

Conclusion

26. A number of improvements have been made in the procurement function over recent years. There has been a general increase in awareness of the rules and in the visibility of spend and contracts across services and the number of contracts listed on the register has increased. Of our 50 top suppliers by value, all these contracts are either on the register or current undergoing a procurement process.
27. Joint management of the function with finance has helped the procurement officers to work closely with finance colleagues and to take advantage of existing, positive relationships with service managers and finance colleagues.
28. Significant inroads have been made in engagement with local suppliers and the team are regular attendees at a range of events organised by the Federation of Small Business and the local Chamber of Commerce. Reporting of expenditure by supplier type is now possible and this has demonstrated the council's effectiveness at using small, local businesses. Market engagement and meet the buyer events are now held routinely.
29. Regular training is taking place, lead by the corporate finance & commercial procurement manager, and a comprehensive toolkit has been developed and is available on the intranet for staff use.
30. A robust system is in place for carrying out routine compliance checks and the team have the full support of senior managers in identifying and resolving issues.

31. Clearly, there is room for improvement in some areas. We need to establish a more effective system of retaining documentation, particularly to prevent information being lost when an individual officer leaves the council. Contract management could also be improved in some areas, as this is vital in ensuring we hold the supplier to account and get what we are paying for. There are also some areas where procurement support is not utilised early enough, which can result in delays and missed opportunities to collaborate with other councils.
32. Public Sector procurement can be a highly complex area and services need the support of procurement, finance and legal to ensure they deliver on their obligations and responsibilities in this area. As well as the training available for officers, further training on the key aspects of procurement could be provided to members of Audit & Governance Committee if required.
33. In light of the continued financial challenge being faced by all aspects of the public sector, the procurement team will continue to
- maintain its focus on driving down costs and delivering value
 - pro actively identify areas of non compliance and escalate issues to ensure solutions identified

Recommendation

34. Members are asked to note the contents of the report and indicate if further training is of interest to the committee.

Reason: To update the Committee on procurement issues

Author:	Chief Officer responsible for the report:		
Debbie Mitchell Finance & Procurement Manager Ext 4161	Ian Floyd Director of Customer & Corporate Services		
	Report Approved	√	Date 30 January 2017
Wards Affected: <i>All</i>			
<i>For further information please contact the author of the report</i>			

Annex one – examples of recent procurement exercises

Examples of recent procurement exercises**Home to School Transport.**

Estimated total contract value £14.4m

Final total contract value £12.1m

To enable smaller and local suppliers to tender the services required were split into 3 “lots” as follows;

- Lot 1 - children with special educational needs. Estimated value £4.5m. Awarded contract value £4.1m
- Lot 2 - children being taken to supervised contact visits with parents. Estimated contract value £0.9m. Awarded contract value £1m
- Lot 3 - general transport requirements where a standard school bus may be impractical (eg live too far away from bus route, require wheelchair access, etc.). Estimated contract value £9m. Awarded contract value £7m

Route to market was a fully OJEU compliant open tender issued through Yortender.

There were 4 bidders (11 tenders received in total across the 3 lots). We answered 46 clarification questions and 15 different suppliers accessed the documents through Yortender.

The result is a 3 year contract (with an option to extend for a further 3 years). There are agreed key performance indicators and contract management arrangements in place within the service.

Advocacy Services

Estimated annual contract value £305k

Final annual contract value £280k

Provider required working in partnership with other advocacy services to ensure customers receive support from the most appropriate service. A range of council contracts was brought together through this procurement including;

- Statutory Care Act advocacy
- Statutory Independent Mental Health Advocacy
- NHS complaints advocacy
- Non statutory advocacy for those with complex needs
- One to one support for individuals for whom the Council has a legal obligation to provide advocates
- Provision of time limited issue based support

Route to market was a fully OJEU compliant open tender issued through Yortender.

Only one compliant bid was received. 21 suppliers registered an interest and we answered 17 clarification questions. After evaluation of the tender submission and an interview / presentation session with the bidder they were awarded the contract.

The result is a 3 year contract (with an option to extend for a further 2 years). The supplier is required to collate monitoring information, check quality of provision and take relevant action where any issues are identified.

Roofing Services

Estimated contract value £4.4m

Final contract value £3.2m

The Council needed to appoint sub contractors for a range of services to assist with the ongoing maintenance of council dwellings. A bespoke framework contract is being created divided in 20 separate "lots" to cover each of the relevant trades. The roofing lot was completed during 2016.

Route to market was a fully OJEU compliant open tender issued through Yortender.

112 suppliers registered an interest, with 7 compliant bids received. We answered 29 clarification questions. Bids were evaluated on the basis of 60% quality and 40% cost. The successful bidder had the highest quality score and the lowest cost.

The result is a 4.5 year contract with agreed performance indicators that are monitored on a regular basis.



Audit and Governance Committee**8 February 2017**

Report of the Deputy Chief Executive and Director of Customer and Corporate Services

Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2017/18 to 2021/22**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 2017/18 to 2021/22 are attached at annex 1 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
3. The only proposed policy change to draw members attention to is the proposed change in minimum revenue provisions (MRP) policy as set out in paragraphs 19 to 29 in annex 1. It is proposed that the council amends its MRP policy from 2017/18 in relation to pre 2008 debt, currently calculated using a 4% charge on a reducing balance each year, to 3% on a fixed, straight line basis. The overall revenue impact will be a saving in 2017/18 of £750k whilst still maintaining a prudent provision.

Consultation

4. 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 9th February 2017.

Options

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

Council Plan

6. 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 council's 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 Plan.

Implications

Financial

7. The revenue implications of the treasury strategy are set out in the revenue budget report to be considered by Executive on 9th February 2017.

Legal Implications

8. 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.

Other Implications

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

Risk Management

10. 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

11. Audit and Governance Committee are asked to:

- a. note the treasury management strategy statement and prudential indicators for 2017/18 to 2021/22 at annex 1.

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 Finance & Procurement Manager Tel: 01904 554161	Ian Floyd Deputy Chief Executive and Director of Customer and Corporate Services
Sarah Kirby Principal Accountant Tel: 01904 551635	
	Report approved ✓ 30 January 2017
Wards affected	All

Annexes

Annex 1 – Treasury Management Strategy Statement and Prudential Indicators for 2017/18 to 2021/22

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Executive**9 February 2017**

Report of the Director of Customer and Corporate Services

Treasury Management Strategy Statement and Prudential Indicators for 2017/18 to 2021/22**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 2017/18 financial year.

Recommendations

2. Executive are asked to recommend that Council approve:
 - The proposed Treasury Management Strategy for 2017/18 including the annual investment strategy and the minimum revenue provision policy statement;
 - The prudential indicators for 2017/18 to 2021/22 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)

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 policies, estimates and actuals. The three reports are:
- **Treasury management strategy statement and prudential indicators report** (this report) – which covers the capital plans including prudential indicators, the minimum revenue provision policy, the treasury management strategy and 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 responsible for scrutiny. The training needs of treasury management officers is also periodically reviewed.

Treasury management strategy for 2017/18

9. The treasury management strategy for 2017/18 covers two main areas:

Capital issues

- the capital programme and prudential indicators;

- minimum revenue provision (MRP) policy.

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 elements 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 2017/18 – 2021/22

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 along with the treasury management prudential indicators are included throughout the report:

- PI 1: Capital expenditure
- PI 2: Capital financing requirement
- PI 3: Ratio of financing cost to net revenue stream
- PI 4a&b: Incremental impact of capital investment decisions on council tax and housing rent
- PI 5: External debt
- 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. 2016/17 is included as a comparator. Detailed information on the individual schemes is provided in the capital monitor 3 and capital strategy report.

Capital Expenditure	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
General fund (Non HRA)	38.2	97.8	21.7	15.9	15.6	10.7
Housing revenue account	14.2	19.4	8.6	8.6	8.2	8.3
Total	52.4	117.3	30.3	24.5	23.8	19.0

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 2017/18.

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. Any capital expenditure above, which has not immediately been paid for, 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 40 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	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Non housing CFR	188.6	213.2	212.3	211.8	210.1	208.8
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	328.9	353.5	352.6	352.1	350.4	349.1

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. Councils are also able to adopt local approaches, provided that their MRP is still deemed to be prudent.
21. It is proposed that the Council amends its MRP policy for 2017/18 in relation to supported borrowing, or pre 2008 debt. This element of MRP provision is currently calculated using a 4% charge on a reducing balance each year.
22. The change proposed is to reduce the annual percentage MRP charge from 4% to 3% and apply the new contribution rate on a fixed, straight line basis. This is, in effect, the asset life method with an average of 33 years being applied based on an overall average of the asset base.

23. This approach would have the effect of reducing the debt liability to a fixed life of 33 years and would be considered a more prudent provision than the current approach, as it introduces a more certain period for spreading the cost of this element of debt liability. This is in line with one of the main MRP guidance principles, whilst achieving an overall faster level of debt redemption over the equivalent period as would have arisen under the 4% reducing balance approach. It also spreads the cost more evenly amongst taxpayers that will benefit from the capital expenditure.
24. 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:
- **Asset life method (local approach)** - MRP will be based on the average life of the overall asset base of 33 years. This will be calculated as 3% on a fixed, straight line basis.
25. This provides for a 3% reduction in the borrowing need (CFR) each year.
26. 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);
27. 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.
28. 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 place).

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

Affordability prudential indicators

30. 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.

31. 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	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
Non-HRA	11.74	12.01	12.96	12.04	11.86	11.82
HRA	13.14	13.14	13.14	13.14	13.14	13.14

Table 3: Ratio of financing costs to net revenue stream

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

33. Prudential indicator 4a - 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	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £	2019/20 Estimate £	2020/21 Estimate £	2021/22 Estimate £
Incremental impact	14.49	24.35	31.50	9.90	9.24	7.98

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

34. Prudential indicator 4b - 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

35. 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.

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

Current portfolio position

37. The Council's treasury portfolio position at 30th January 2017 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)	£240.1m	3.63%

Market Loans		
Club loan – A loan taken in conjunction with 2 other authorities	£10.0m	7.15%
LOBO Loans (2) – Lender Option Borrower Option	£10.0m	3.74%
Total Gross Borrowing (GF & HRA)	£260.1m	3.77%
Total Investments	£115.9m	0.50%

Table 6: Current position at 30th January 2017

38. The Council had £260.1m of fixed interest rate debt, of which £140.3m was HRA and £119.8m general fund. The cash balance available for investment was £115.9m. This relatively high level of cash balances is due to timing issues with some significant receipts that are received in advance of expenditure being incurred, as well as holding specific balances to meet an identified need or risk. It is expected that the average balance will start to reduce in coming years.

39. Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well defined limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. 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 2017/18 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.

40. **Prudential indicator 5 – external debt** Table 7 shows that the estimated gross debt position of the Council does not exceed the underlying capital borrowing need. The Director of Customer & Corporate Services (s151 officer) confirms that the Council complies with this prudential indicator and does not envisage difficulties for the future.

	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Gross projected debt	275.1	290.1	285.1	284.1	284.1	280.1
Total CFR	328.9	353.5	352.6	352.1	350.4	349.1
Under/(over) borrowed	Under	Under	Under	Under	Under	Under

Table 7: External debt < capital financing requirement

41. 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 over the 5 year period 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

42. **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	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Borrowing	275.1	290.1	285.1	284.1	284.1	280.1
Operational Boundary	355.3	363.5	362.7	362.1	360.4	359.2
Other long term liabilities	30.0	30.0	30.0	30.0	30.0	30.0
Total	385.3	393.5	392.7	392.1	390.4	389.2

Table 8: Authorised borrowing limit

43. **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. 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	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
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	£m	£m	£m	£m	£m	£m
Borrowing	275.1	290.1	285.1	284.1	284.1	280.1
Other long term liabilities	10.0	10.0	10.0	10.0	10.0	10.0
Total	355.3	363.5	362.7	362.1	360.4	359.2

Table 9: Operational boundary

44. 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	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 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

45. 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
Dec 2016	0.25	1.60	2.90	2.70
Mar 2017	0.25	1.60	2.90	2.70
Jun 2017	0.25	1.60	2.90	2.70
Sep 2017	0.25	1.60	2.90	2.70
Dec 2017	0.25	1.60	3.00	2.80
Mar 2018	0.25	1.70	3.00	2.80
Jun 2018	0.25	1.70	3.00	2.80
Sep 2018	0.25	1.70	3.10	2.90
Dec 2018	0.25	1.80	3.10	2.90
Mar 2019	0.25	1.80	3.20	3.00
Jun 2019	0.50	1.90	3.20	3.00
Sep 2019	0.50	1.90	3.30	3.10
Dec 2019	0.75	2.00	3.30	3.10
Mar 2020	0.75	2.00	3.40	3.20

Table 11 – Capita's interest rate forecast

46. The Monetary Policy Committee, (MPC), cut Bank Rate from 0.50% to 0.25% on 4th August in order to counteract what it forecast was going to be a sharp slowdown in growth in the second half of 2016. It also gave a strong steer that it was likely to cut Bank Rate again by the end of the year. However, economic data since August has indicated much stronger growth in the second half 2016 than that forecast; also, inflation forecasts have risen substantially as a result of a continuation of the sharp fall in the value of sterling since early August. Consequently, Bank Rate was not cut again in November and, on current trends, it now appears unlikely that there will be another cut, although that cannot be completely ruled out if there was a significant dip downwards in economic growth.
47. During the two-year period 2017 – 2019, when the UK is negotiating the terms for withdrawal from the EU, it is likely that the MPC will do nothing to dampen growth prospects, (i.e. by raising Bank Rate), which will already be adversely impacted by the uncertainties of what form Brexit will eventually take. Accordingly, a first increase to 0.50% is not tentatively pencilled in, as in the table above, until quarter 2 2019, after those negotiations have been concluded, (though the period for negotiations could be extended). However, if strong domestically generated inflation, (e.g. from wage increases within the UK), were to emerge, then the pace and timing of increases in Bank Rate could be brought forward.
48. Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments.
49. The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. The opposite side of this coin has been a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election, has called into question whether, or when, this trend has, or may, reverse, especially when America is likely to lead the way in reversing monetary policy. Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as strong economic growth becomes more firmly established. The expected substantial rise in the Fed. rate over the next few years may make holding

US bonds much less attractive and cause their prices to fall, and therefore bond yields to rise. Rising bond yields in the US would be likely to exert some upward pressure on bond yields in other developed countries but the degree of that upward pressure is likely to be dampened by how strong, or weak, the prospects for economic growth and rising inflation are in each country, and on the degree of progress in the reversal of monetary policy away from quantitative easing and other credit stimulus measures.

50. PWLB rates and gilt yields have been experiencing exceptional levels of volatility that have been highly correlated to geo-political, sovereign debt crisis and emerging market developments. It is likely that these exceptional levels of volatility could continue to occur for the foreseeable future.
51. The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.
52. Apart from the above uncertainties, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:
 - Monetary policy action by the central banks of major economies reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some countries, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
 - Major national polls:
 - Italian constitutional referendum 4.12.16;
 - Spain has a minority government with only 137 seats out of 350 after already having had two inconclusive general elections in 2015 and 2016. This is potentially highly unstable.
 - Dutch general election 15.3.17;
 - French presidential election April/May 2017;
 - French National Assembly election June 2017;
 - German Federal election August – October 2017.
 - A resurgence of the Eurozone sovereign debt crisis, with Greece being a particular problem, and stress arising from disagreement between EU countries on free movement of people and how to handle a huge influx of immigrants and terrorist threats
 - Weak capitalisation of some European banks, especially Italian.
 - Geopolitical risks in Europe, the Middle East and Asia, causing a significant increase in safe haven flows.

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.

53. The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates, include: -

- UK inflation rising to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium in gilt yields.
- A rise in US Treasury yields as a result of Fed. funds rate increases and rising inflation expectations in the USA, dragging UK gilt yields upwards.
- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- A downward revision to the UK's sovereign credit rating undermining investor confidence in holding sovereign debt (gilts).

Investment and borrowing rates

54. Investment returns are likely to remain relatively low during 2017/18 and beyond. Borrowing interest rates have been on a generally downward trend during most of 2016 up to mid August when they fell sharply to historically phenomenally low levels after the referendum and then even further after the MPC meeting of 4th August when a new package of quantitative easing purchasing of gilts was announced. Gilt yields have since risen sharply due to a rise in concerns around a "hard Brexit", the fall in the value of sterling and an increase in inflation expectations. 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 years when the Council will not be able to avoid new borrowing to finance capital expenditure.

55. 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

56. The overall 5 year capital programme could require additional net borrowing of £7m over the next 5 years. However, we do not currently envisage taking any new borrowing within the next 2 to 3 years due to our strong positive cash flow position. As cash flow can change due to specific transactions, this will need to be kept under review. 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.

57. 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.
58. 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.
59. Against this background and the risks within the economic forecast, caution will be adopted with the treasury operations. The Director of Customer and Corporate 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.
60. 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.
61. 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

62. 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

Interest rate exposure	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %
	Upper	Upper	Upper	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	127	114	108	108	108	108
Limits on variable interest rates based on net debt	-27	-14	-8	-8	-8	-8

Table 12: Limits on Interest rate exposure

- 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.

Maturity structure of borrowing 2016/17				
	Lower	Upper	Debt	Debt (£)
Under 12 months	0%	30%	4%	£10.0m
12 months to 2 years	0%	30%	4%	£10.0m
2 years to 5 years	0%	40%	11%	£28.0m
5 years to 10 years	0%	40%	20%	£51.4m
10 years and above	30%	90%	61%	£160.7m
Total Borrowing			100%	£260.1m

Table 13: Maturity structure of borrowing

Policy on borrowing in advance of need

63. 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.

64. 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.
65. 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

66. 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).
67. 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).
68. 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.
69. All rescheduling will be reported to the Executive / Audit & Governance Committee at the earliest meeting following its action.

Municipal Bond Agency

70. 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 and will make use of this new source of borrowing as and when appropriate.

Annual investment strategy

Investment policy

71. 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.
72. 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.
73. 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.
74. 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.
75. 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.
76. The Council continues to take a prudent approach to investing funds as set out in the creditworthiness policy below.

Creditworthiness policy

77. 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

78. 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*

79. 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.

80. 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.

81. 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.

82. 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.

83. Whilst the Council has determined that it will not limit investments to UK banks, 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

84. 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).

85. For 2017/18 the average balance is forecast to be between a low point of £35m and high point of £95m. 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.

86. Bank rate is forecast to remain unchanged at 0.25% until quarter 2 2019 and not rise above 0.75% by quarter 1 2020. Bank rate forecasts for financial year ends (March) are:

2017/18	0.25%
2018/19	0.25%
2019/20	0.50%

87. 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.

88. 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	0.25%
2017/18	0.25%
2018/19	0.25%
2019/20	0.50%

89. Therefore for 2017/18, the Council has budgeted for an investment return target of 0.25% on investments placed during the financial year and uses the 7 day LIBID rate as a benchmark for the rate of return on investment.

90. **Prudential indicator 9** - total principal investment funds invested for greater than 364 days. This limit is set with regards to the Council's liquidity requirements and are based on the availability of funds after each year-end. A maximum principal sum to be invested for greater than 364 days is £15m.

	2016/17 Estimate £m	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m
Maximum limit per year for Investments > 364 days	0.00	15.0	15.0	15.0	15.0	15.0

Table 14: Maturity structure of borrowing

91. At the end of the financial year, the Council will report on its investment activity as part of its annual treasury report. It should be noted that the Investment policy, creditworthiness policy and investment strategy are applicable to the Council's overall surplus funds and are also applicable to the HRA.

Policy on the use of external service providers

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

93. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

94. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Scheme of delegation and the role of the section 151 officer

95. Those charged with governance are responsible for the treasury management activities and 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 & Corporate Services).

Consultation and options

96. The treasury management function of any business is a highly technical area, where decisions are often taken at very short notice in reaction to the financial markets. Therefore, to enable effective treasury management, all operational decisions are delegated by the Council to the Director of Customer & Corporate 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.
97. Treasury management strategy and activity is influenced by the capital investment and revenue spending decisions made by the Council. Both the revenue and capital budgets have been through a corporate process of consultation and consideration by the elected politicians. The revenue budget and capital budget proposals are included within this agenda.
98. At a strategic level, there are a number of treasury management options available 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

99. The treasury management strategy statement and prudential indicators are aimed at ensuring the Council maximises its return on investments and minimises the cost of its debts 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 Plan.

Implications

Financial

100. 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)

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

Equalities

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

Legal Implications

103. 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

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

Risk management

105. 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.

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Wards Affected: Not Applicable			

For further information please contact the author of the report

Background papers

none

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 2016-2020

Capita Asset Services Interest Rate View													
	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Dec-19	Mar-20
Bank Rate View	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%
3 Month LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.50%	0.60%	0.80%	0.90%
6 Month LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.60%	0.70%	0.90%	1.00%
12 Month LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%	0.80%	0.80%	0.90%	1.00%	1.10%	1.30%	1.40%
5yr PWLB Rate	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	2.00%	2.00%
10yr PWLB Rate	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%
25yr PWLB Rate	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%
50yr PWLB Rate	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%
Bank Rate													
Capita Asset Services	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%	0.75%
Capital Economics	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.75%
5yr PWLB Rate													
Capita Asset Services	1.60%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	2.00%	2.00%
Capital Economics	1.60%	1.70%	1.80%	1.90%	1.95%	2.05%	2.20%	2.30%	2.40%	2.60%	2.80%	3.20%	3.30%
10yr PWLB Rate													
Capita Asset Services	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.70%
Capital Economics	2.30%	2.35%	2.45%	2.50%	2.55%	2.60%	2.70%	2.70%	2.80%	3.00%	3.20%	3.60%	3.70%
25yr PWLB Rate													
Capita Asset Services	2.90%	2.90%	2.90%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%
Capital Economics	2.90%	3.00%	3.05%	3.10%	3.15%	3.25%	3.30%	3.35%	3.45%	3.55%	3.75%	4.15%	4.35%
50yr PWLB Rate													
Capita Asset Services	2.70%	2.70%	2.70%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%
Capital Economics	2.80%	2.85%	2.95%	3.00%	3.05%	3.10%	3.15%	3.20%	3.30%	3.50%	3.70%	4.10%	4.20%

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.

Investments are split into two categories of specified investments and non-specified Investments. Specified investments are relatively high security and high liquidity investments, which must be sterling denominated and with a maturity of no more than a year. Non-specified investments are those investments with a maturity period of greater than one year or are still regarded as prudent but may require more detailed scrutiny and assessment procedures.

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:

Counterparty type	Minimum 'high' credit criteria/colour band	Maximum investment limit per counterparty institution	Maximum maturity period
DMADF – UK Government	UK sovereign rating	£15m	1 year
UK Government Treasury Bills	UK sovereign rating	£15m	6 months
UK Government Gilts	UK sovereign rating	£15m	1 year
Term deposits - local authorities	UK sovereign rating	£15m	1 year
Part-nationalised UK Banks	Blue	£15m	1 year
Term Deposits - UK Banks and Building Societies	Orange Red Green	£15m £15m £8m	1 year 6 months 100 days
Term Deposits - Non-UK Banks (with a sovereign rating of AA-)	Orange	£15m	1 year
Certificates of Deposits issued by Banks and Building Societies	Orange/Blue	£15m	1 year
Collective investment schemes structured as open ended investment companies (OEICs) as below:-			

1. Government liquidity Funds	AAA	£15m	Liquid
2. Money Market Funds	AAA	£15m	Liquid
3. Enhanced Cash Funds	AAA	£15m	Liquid
4. Bond Funds	AAA	£15m	Liquid

NON-SPECIFIED INVESTMENTS:

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

1. Maturities of ANY period

Counterparty type	Minimum credit criteria	Maximum investment limit per counterparty institution	Maximum Maturity Period
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Orange Blue Red Green	£15m £15m £15m £8m	1 Year 1 year 6 months 100 days
Certificates of Deposits issued by Banks and Building Societies	Red Green	£15m £8m	6 months 100 days
Floating Rate Notes	Long-term AAA	£15m	1 year
Property Funds: <i>the use of these investments may constitute capital expenditure</i>	AAA-rated	£15m	5 years

2. Maturities in excess of 1 year

Term Deposits– local authorities	UK Sovereign Rating	£15m	> 1 year
Term deposits – Banks and Building Societies	Yellow Purple	£15m £15m	5 years 2 years
Certificates of Deposits issued by Banks and Building Societies not covered by UK Government guarantee	Yellow Purple	£15m £15m	5 years 2 years
UK Government Gilts	UK sovereign rating	£15m	> 1 year
Collective investment schemes structured as open ended investment companies (OEICs) as below:-			

1. Bond Funds	Long-term AAA	£15m	> 1 year
2. Gilt funds	Long-term AAA	£15m	> 1 year

Approved countries for investments

Annex C

AAA

- Australia
- Canada
- Denmark
- Germany
- Netherlands
- Singapore
- Sweden
- Switzerland
- U.S.A.

AA+

- Finland

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.

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 Corporate Services (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 & Corporate 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 & Corporate 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.



Audit and Governance Committee

8 February 2017

Report of the Head of Internal Audit

Counter Fraud Policy, Strategy and 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 activity to address those risks. The report also details a proposed new counter fraud and corruption policy, and a strategy, for the committee's comments.

Background

- 2 Fraud is a significant issue for all public sector organisations. It is estimated that total fraud loss in the UK amounts to £73 billion a year, of which £19.9 billion relates to the public sector. To effectively combat fraud it is essential that the council has appropriate policies in place and regularly considers the range of fraud risks it faces.

Policy and Strategy

- 3 In the last few years there have been significant changes in the fraud risks affecting local authorities. For example the use of technology and opening up of council data has led to an increase in attacks on council payment systems. In addition, recent high profile attacks on IT systems using "ransom ware" have highlighted further risks. More generally, there has been a growing awareness of fraud risks in the public sector. This has led to the publication of updated guidance for local authorities including the Chartered Institute of Public Finance and Accountancy's Code of Practice on Managing the Risks of Fraud and Corruption. In addition, the council's responsibility for investigating housing benefit fraud has ended. This work transferred to the Department for Work and Pensions (DWP) as part of their Single Fraud Investigation Service (SFIS) project, in early 2016.

- 4 A proposed new counter fraud and corruption policy is included at annex 1, for the committee's review. This sets out responsibilities for counter fraud and investigation work and the actions the council will take in response to fraud. The policy reflects the latest national guidance, and removes the emphasis on benefit fraud in the existing policy. A revised counter fraud and corruption prosecution policy is incorporated as annex A to annex 1.
- 5 Current good practice guidance recommends that councils adopt a counter fraud strategy. The strategy should recognise the fraud risks the organisation faces and set out actions required to strengthen the counter fraud framework. A proposed strategy is included at annex 2. The strategy takes into account both the Code of Practice, and the national local government counter fraud strategy, Fighting Fraud Locally. The strategy is a working document and updates will be brought to the committee for review annually.

Risk Assessment

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

Consultation

- 7 Not relevant for the purpose of the report.

Options

- 8 Not relevant for the purpose of the report.

Analysis

- 9 Not relevant for the purpose of the report.

Council Plan

- 10 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

- 11 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

- 12 The council will fail to comply with proper practice if counter fraud and corruption arrangements are not reviewed periodically.

Recommendations

- 13 Members are asked to;
- comment on the proposed new counter fraud and corruption policy and associated prosecution policy at annex 1 and on the proposed strategy at annex 2.

Reason

In accordance with the committee's responsibility for assessing the effectiveness of the Council's counter fraud arrangements.

- comment on the fraud risk assessment and proposed priorities for counter fraud work set out in annex 3.

Reason

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

Contact Details

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Ian Floyd
Deputy Chief Executive
Customer and Corporate Services
Telephone: 01904 551100

**Report
Approved**



Date 28 January
2017

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

Fighting Fraud & Corruption Locally - The local government counter fraud and corruption strategy 2016 - 2019

The Code of Practice on Managing the Risks of Fraud and Corruption (Cipfa 2014).

Annexes

Annex 1 – Counter Fraud and Corruption Prosecution Policy

Annex 2 – Counter Fraud and Corruption Strategy and Action Plan

Exempt Annex 3 - Counter Fraud Risk Assessment



COUNTER FRAUD AND CORRUPTION POLICY

1 Introduction

- 1.1 All organisations are at increasing risk of fraud and corruption. Some commentators estimate that annual fraud losses to local government in the UK could be £7.3 billion. It is therefore a risk that the council cannot and should not ignore.
- 1.2 Any fraud committed against the council effectively constitutes a theft of taxpayer's money. It is unlawful and deprives the council of resources which should be available to provide services to the public. By putting in place effective measures to counter the risk of fraud and corruption the council can reduce losses which impact on service delivery as a contribution to the achievement of overall council priorities.
- 1.3 This document sets out the council's policy in relation to fraud and corruption perpetrated against it, and its overall arrangements for preventing and detecting fraud. It includes the fraud and corruption prosecution policy contained in Annex A. It forms part of the council's overall policy framework for combating fraud and corruption and should be read in conjunction with the counter fraud strategy, constitution, the financial regulations, contract procedure rules, the whistleblowing policy, anti-money laundering policy, codes of conduct, and disciplinary procedures.

2 Definitions and Scope

- 2.1 For the purpose of this policy, the term fraud is used broadly to encompass:
- acts which would fall under the definition in the Fraud Act (2006)
 - anything which may be deemed fraudulent in accordance with the generally held view of fraud as causing loss or making a gain at the expense of someone by deception and dishonest means
 - any offences which fall under the Social Security Administration Act (1992), Council Tax Reduction Schemes Regulations (2013) and the Prevention of Social Housing Fraud Act (2013)
 - any act of bribery or corruption including specific offences covered by the Bribery Act (2010)
 - acts of theft
 - any other irregularity which is to the detriment of the council whether financially or otherwise, or by which someone gains benefit they are not entitled to.
- 2.2 This policy does not cover fraud or corruption against third parties, except where there may be an impact on the service provided by the council. In addition, it does not cover other acts – for example offences involving

violence - which may affect the council, and which should in most cases be reported directly to the police.

3 Principles

- 3.1 The council will not tolerate fraud or corruption in the administration of its responsibilities, whether perpetrated by members, officers, customers of its services, third party organisations contracting with it to provide goods and/or services, or other agencies with which it has any business dealings. There is a basic expectation that members, employees, and contractors' staff will act with integrity and with due regard to matters of probity and propriety, the requirement to act lawfully and comply with all rules, procedures and practices set out in legislation, the constitution, the council's policy framework, and all relevant professional and other codes of practice.
- 3.2 The council will seek to assess its exposure to risks of fraud and corruption. It will prioritise resources available to prevent and deter fraud in order to minimise this risk.
- 3.3 The council will consider any allegation or suspicion of fraud seriously, from whatever source, and if appropriate will undertake an investigation to confirm whether fraud has occurred and determine the appropriate outcome. Any investigation will be proportionate. The council may refer any incident of suspected fraud to the police or other agencies for investigation, if appropriate.
- 3.4 To act as a deterrent, the council will take action in all cases where fraud (or an attempt to commit fraud) is proved, in proportion to the act committed. This may include prosecution, application of internal disciplinary procedures, or any other action deemed appropriate to the offence (for example referral to a professional body). Prosecution decisions will be made in accordance with the fraud and corruption prosecution policy (Annex A).
- 3.5 As a further deterrent, and to minimise losses, the council will attempt to recover any losses incurred through civil or legal action. In addition, the council will seek to apply any appropriate fines or penalties, and recover any costs incurred in investigating and prosecuting cases.

4 Responsibilities

- 4.1 Overall responsibility for counter fraud arrangements rests with the council's Chief Finance Officer (The Corporate Director Customer and Corporate Services), on behalf of the council. The CFO has a professional responsibility for ensuring the council has appropriate measures for the

- prevention and detection of fraud and corruption, which are reflected in legislation.
- 4.2 The Audit and Governance Committee has responsibility for assessing the effectiveness of the Council's counter fraud arrangements including the Whistleblowing policy and other relevant counter fraud policies and plans.
 - 4.3 The Council's Management Team (CMT) are collectively responsible for ensuring that the council has effective counter fraud and corruption procedures embedded across the organisation that comply with best practice and good governance standards and requirements.
 - 4.4 Veritau (who provide internal audit and counter fraud services to the council) is responsible for reviewing the council's counter fraud and corruption policies on a regular basis and recommending any required changes to those policies. In addition, Veritau leads on fraud prevention and detection issues for the council and is responsible for investigating suspected cases of fraud or corruption. The internal audit team carries out audit work to ensure that systems of control are operating effectively, which contributes to the reduction in opportunities for committing fraud. The Head of Internal Audit is required to report their professional opinion on the council's control environment to members of the Audit & Governance Committee on an annual basis in accordance with proper practice.
 - 4.5 All senior managers have a responsibility for preventing and detecting fraud within their service areas. This includes maintenance of effective systems of internal control and ensuring that any weaknesses identified through the work of internal audit or by other means are addressed promptly.
 - 4.6 The Monitoring Officer is the council's nominated officer for the purposes of the Money Laundering Regulations (2007), and is responsible for reporting any issues referred to them, in this capacity.
 - 4.7 All staff have a general responsibility to be aware of the possibility of fraud and corruption, and to report any suspicions that they may have to Veritau. Where appropriate, staff may use the whistleblowing policy to raise concerns anonymously.
 - 4.8 Officers within human resources have a responsibility to support service departments in undertaking any necessary pre-disciplinary investigation and disciplinary process.

5 Overall Counter Fraud Arrangements

Introduction

- 5.1 The purpose of this section is to set out the council's overall framework for countering the risk of fraud and corruption. While the council aims to follow best practice in relation to counter fraud activity¹, it recognises that new and emerging fraud risks will require a dynamic approach to fraud prevention and detection.

Measurement

- 5.2 The council will assess the potential risks and losses due to fraud and corruption, and will use these to prioritise counter fraud activity, and review the resources available to counter those risks. The review will include an assessment of actual levels of fraud² and the effectiveness of counter fraud activity in reducing losses. The outcome of this review will be reported to the Audit & Governance Committee on an annual basis as part of the audit and fraud planning cycle.

Culture

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

¹ For example the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

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

Prevention and Detection

Controls

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

Proactive Work

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

Relationships

- 5.8 The council has established relationships with a number of other agencies. It will continue to develop these relationships and develop new ones to further the prevention and detection of fraud. Organisations which the council will work with include:
- the police

- the courts
- the Cabinet Office
- the Department for Communities and Local Government
- the Department for Works and Pensions
- other councils
- community groups.

5.9 Veritau will work with council departments to ensure that systems for reporting and investigating suspected fraud and corruption are robust.

Fraud Awareness Training

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

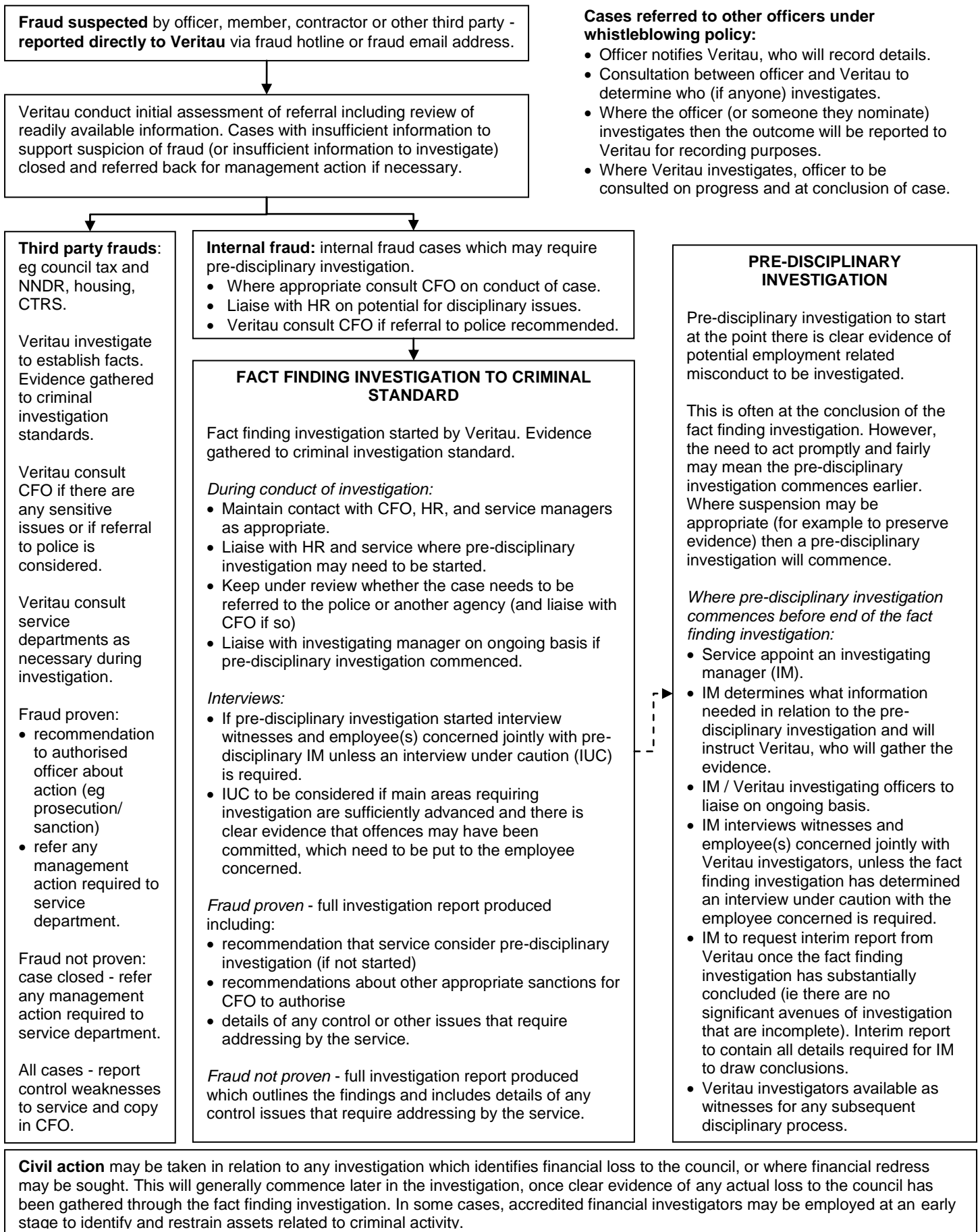
Investigation

5.11 All suspected cases of fraud, corruption, theft or other irregularity will be investigated. The nature of each investigation will depend on the circumstances of each case. Veritau will act as a first port of call for any suspected fraud and will provide advice on whether other agencies should be notified (eg the police). Veritau will determine the extent of the investigation to be carried out in consultation with the Chief Finance Officer, service departments and human resources. Where necessary, Veritau may refer cases to other agencies (for example the police) at the discretion of the Head of Internal Audit. Figure 1 overleaf outlines the fraud referral and investigation process.

5.12 All staff involved in the investigation of fraud will be appropriately trained. They will be required to comply with any relevant legislation and codes of practice. For example the Police and Criminal Evidence Act (PACE), Regulation of Investigatory Powers Act (RIPA), the Data Protection Act, and the Criminal Procedures Investigations Act (CPIA). Investigators will take into account the individual circumstances of anyone involved in an investigation and adjustments to procedure will be made where necessary to ensure that all parties are treated equitably (where it is appropriate and reasonable to do so).

5.13 As part of the outcome of every investigation, a review of any weaknesses in control will be made and if necessary recommendations will be made to address any issues identified. These will be set out in a formal report to the managers of the service concerned, and will be followed up to ensure the issues are addressed.

Figure 1: City of York Council Fraud Referral and Investigation Process



- 5.14 The Head of Internal Audit will ensure that systems for investigating fraud are reviewed on an ongoing basis, to ensure that they remain up to date and comply with good practice.

Publicity

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

Recovery of Monies

- 5.17 Where any loss has been incurred by the council or additional costs have been incurred as a result of fraud or corruption, the council will seek to recover these from the individual or organisation concerned. This will help to ensure that the financial impact of fraud on the council is minimised and act as a deterrent. As a further deterrent, the council will seek to levy any appropriate fines or penalties where it is possible and desirable to do so.
- 5.18 Methods of recovery may include (but are not limited to):
- recovery from assets held by the organisation or individual (using the Proceeds of Crime Act or any other relevant legislation)
 - bankruptcy where appropriate
 - recovery from future salary payments if an individual remains an employee of the council
 - recovery of pension contributions from employees or members who are members of the North Yorkshire Pension Fund.

6 Monitoring & Review Arrangements

- 6.1 The arrangements set out in this policy document will be reviewed on an annual basis as part of the audit and fraud planning cycle and will include the fraud and corruption prosecution policy (Annex A) and other related guidance. Veritau will work with other departments to ensure that other related guidance and policy (such as the whistleblowing policy) are

reviewed on a regular basis and any amendments or necessary changes are reported to members for approval.

LAST REVIEWED AND UPDATED: 07 February 2017



FRAUD AND CORRUPTION PROSECUTION POLICY

1 Scope and Purpose

- 1.1 The fraud and corruption prosecution policy forms part of the council's overall counter fraud and corruption arrangements. The policy covers all acts, and/or attempted acts, of fraud or corruption committed by officers or members of the council, or committed by members of the public, or other organisations or their employees, against the council.
- 1.2 The policy sets out the circumstances in which the council will take legal action against the perpetrators of fraud or corruption. It also sets out the circumstances when it is appropriate to consider alternative courses of action such as offering a caution. The policy does not cover internal disciplinary procedures which are the subject of the council's separate disciplinary policy and procedures.
- 1.3 This policy should be read in conjunction with the council's constitution, financial regulations, contract procedure rules, the counter fraud and corruption policy and the strategy, the whistleblowing policy and the council's disciplinary policy and procedures.
- 1.4 The policy contains specific guidelines for determining the most appropriate course of action when fraud has been identified. Offences other than fraud and corruption (for example those relevant to the enforcement of regulations) are dealt with by the appropriate service departments under other policies and relying on specific legal powers.

2 Principles

- 2.1 The council is committed to deterring fraud and corruption. As part of its overall strategy to do this the council will seek to take appropriate action against anyone proven to have attempted and/or committed a fraudulent or corrupt act against it. The council considers that those guilty of serious fraud or corruption must take responsibility for their actions before the courts.
- 2.2 The policy is designed to ensure that the council acts fairly and consistently when determining what action to take against the perpetrators of fraud or corruption.
- 2.3 Staff and members who are found to have committed fraud or corruption may be prosecuted in addition to such other action(s) that the council may decide to take, including disciplinary proceedings in the case of staff and referral to the relevant officer or body in the case of members. Any decision not to prosecute a member of staff for fraud and corruption does not preclude remedial action being taken by the relevant director(s) in accordance with the council's disciplinary procedures or other

policies.

- 2.4 This Policy is also designed to be consistent with council policies on equalities. The council will be sensitive to the circumstances of each case and the nature of the crime when considering whether to prosecute or not.
- 2.5 The consistent application of the policy will provide a means for ensuring that those who have perpetrated fraud and corruption are appropriately penalised. It will also act as a meaningful deterrent to those who are contemplating committing fraud or corruption. The council recognises the deterrent value of good publicity and therefore information regarding successful prosecutions and sanctions will be made public.
- 2.6 Any decision taken by an authorised officer to prosecute an individual or to offer a formal sanction will be recorded in writing. The reason for the decision being taken will also be recorded.
- 2.7 Irrespective of the action taken to prosecute the perpetrators of fraud and corruption, the council will take whatever steps necessary to recover any losses incurred, including taking action in the civil courts.

3 Prosecution

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

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

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

- the actual or potential loss to the council was substantial;
- the fraud has continued over a long period of time;
- the fraud was calculated and deliberate;
- the person has previously committed fraud against the council (even if prosecution did not result) and/or there has been a history of fraudulent activity;
- the person was in a position of trust (for example, a member of staff);
- there has been an abuse of position or privilege;
- the person has declined the offer of a caution or financial penalty;
- the case has involved the use of false identities and/or false or forged documents;

4 Mitigating Factors

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

Voluntary Disclosure

4.2 A voluntary disclosure occurs when an offender voluntarily reveals fraud about which the council is otherwise unaware. If this happens, then the fraud will be investigated but the offender will not be prosecuted unless

in exceptional circumstances. However, any person colluding in the crime will still be prosecuted. A disclosure is not voluntary if the:-

- admission is not a complete disclosure of the fraud;
- admission of the fraud is made only because discovery of the fraud is likely, (for example, the offender knows the council is already undertaking an investigation in this area and/or other counter fraud activity);
- offender only admits the facts when challenged or questioned;
- offender supplies the correct facts when making a claim to Legal Aid.

Ill Health or Disability

- 4.3 Where the perpetrator (and/or their partner) is suffering from prolonged ill health or has a serious disability or other incapacity then the offender will not normally be prosecuted. Evidence from a GP or other doctor will be requested if the condition is claimed to exist, unless it is obvious to the investigator. It is also necessary to prove that the person understood the rules governing the type of fraud committed and was aware that their action is wrong. This may not be possible where, for instance, the offender has serious learning difficulties. However, simple ignorance of the law will not prevent prosecution.

Social Factors

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

Exceptional Circumstances

- 4.5 In certain exceptional circumstances the council may decide not to prosecute an offender. Such circumstances include;
- the inability to complete the investigation within a reasonable period of time;
 - the prosecution would not be in the interests of the council;
 - circumstances beyond the control of the council make a prosecution unattainable.

5 Alternatives to Prosecution

5.1 If some cases are considered strong enough for prosecution but there are mitigating circumstances which cast a doubt as to whether a prosecution is appropriate then the council may consider the offer of a sanction instead. The two sanctions available are;

- a caution, or;
- financial penalty.

Simple Cautions

5.2 A simple caution is a warning given in certain circumstances as an alternative to prosecution, to a person who has committed an offence. All cautions are recorded internally and kept for a period of six years. Where a person offends again in the future then any previous cautions will influence the decision on whether to prosecute or not.

5.3 For less serious offences a simple caution will normally be considered where all of the following apply;

- there is sufficient evidence to justify instituting criminal proceedings;
- the person has admitted the offence;
- there is no significant public interest in prosecution;
- it was a first offence, and;
- a financial penalty is not considered to be appropriate.

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

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

Financial Penalties

5.5 The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013, permit a financial penalty to be offered to claimants as an alternative to prosecution. The penalty is

set at 50% of the amount of the excess reduction, subject to a minimum of £100 and a maximum of £1000. Once a penalty is accepted, the claimant has 14 days to change their mind.

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

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

5.7 It is important to note that the claimant does not need to have admitted the offence for a financial penalty to be offered. Financial penalties will be administered by the Head of Internal Audit (or deputy), Counter Fraud Manager or a senior investigation officer. If a financial penalty is not accepted or is withdrawn then the council will usually consider the case for prosecution. In such cases the court will be informed that the defendant was offered a penalty but declined to accept it.

6 Proceeds of Crime Act 2002 (POCA)

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

7 Implementation Date

7.1 This revised policy is effective from 07 February 2017 and covers all decisions relating to prosecutions and sanctions after this date.

POLICY LAST REVIEWED AND UPDATED 07 February 2017

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COUNTER FRAUD & CORRUPTION STRATEGY

2017-19

Forward by the Chief Executive

The council is funded by public money, through council tax, business rates and other sources. Fraud against the council is essentially theft of this money and the council takes its role as a guardian of these public funds seriously.

The Council Plan sets out our ambitions for the residents of the city in a time when demand for services is increasing and funding for local government is falling. We have to make tough decisions on finances to continue to support key services. Any fraud against the council takes more money away from services and undermines our ability to achieve our aims.

For these reasons, the council will not tolerate any fraud or corruption against it.

This strategy sets out the measures the council will take to develop its arrangements to tackle fraud and corruption. We will seek to identify areas where fraud may occur and limit opportunities for fraudsters to exploit the council. Where fraud is suspected we will investigate robustly, and where it is proved will utilise all measures available to us to deal with criminals and recover any losses.

Mary Weastell
Chief Executive

Introduction

- 1 All organisations are at increasing risk of fraud and corruption. The illegal and hidden nature of fraud makes it hard to measure accurately. Some commentators suggest that annual fraud losses to local government in the UK could be £7.3 billion¹. And the risks are growing as fraudsters become more aware of the possibilities for committing fraud against public sector bodies, new technology gives easy access to sophisticated fraud techniques, and council resources are stretched to maintain services with reduced levels of funding.
- 2 The council faces significant financial challenges in the next few years. It must make significant changes to the way it works to continue to provide effective services for its citizens and to achieve its overall aims. It is essential that the council minimises losses caused by fraud, to help it achieve those aims and to maximise the money it has available to provide services.
- 3 This strategy outlines how the council will assess the risks of fraud and corruption that it faces, strengthen its counter fraud arrangements, and tackle fraud where it occurs. It has been prepared to reflect the national collaborative counter fraud strategy for local government in the UK (Fighting Fraud & Corruption Locally - The local government counter fraud and corruption strategy 2016 - 2019). It also takes into account the principles set out in the Chartered Institute of Public Finance and Accountancy's (Cipfa's) Code of Practice on Managing the Risks of Fraud and Corruption (2014).
- 4 The strategy has been reviewed by the Audit and Governance Committee as part of its responsibility for considering the effectiveness of counter fraud and corruption at the council. The strategy will be reviewed annually.

Our aim

- 5 Fighting Fraud & Corruption Locally recommends councils consider the effectiveness of their counter fraud framework by considering performance against the six key themes set out below. The council's aim is that by 2019 it will have adequate and effective arrangements in each of these areas.
 - **Culture**: – creating a culture in which beating fraud and corruption is part of daily business
 - **Capability** – ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks
 - **Capacity** – deploying the right level of resources to deal with the level of fraud risk
 - **Competence** – having the right skills and standards

¹ Annual Fraud Indicator 2016 - Experian/PKF Littlejohn/University of Portsmouth Centre for Counter Fraud Studies. The figure excludes benefit fraud.

- **Communication** – raising awareness, deterring fraudsters, sharing information, celebrating successes
- **Collaboration** – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

Current arrangements and action required

- 6 The council already has many of the components for a strong counter fraud framework in place. For example:
- control arrangements for key financial systems are robust, being underpinned by statutory requirements, council financial regulations and scrutiny through internal and external audit
 - the policy framework incorporates many elements of counter fraud good practice (eg a counter fraud and corruption policy, codes of conduct and registers of interests) which have developed over the years in response to legislation and emerging issues
 - participation in collaborative counter fraud work with other agencies, through the National Fraud Initiative.
- 7 However, with a growing awareness of new fraud risks in recent years there is now a need to review overall arrangements, taking into account the latest guidance available to assess whether the overall counter fraud framework is robust.
- 8 The themes listed in paragraph 5 are reflected by the good practice arrangements set out in Cipfa's Code of Practice on Managing the Risks of Fraud. A review of current arrangements against the code of practice has identified a number of areas for development, and these are included in the action plan at Appendix 1. The actions also address the recommendations directed at local authorities in the national Fighting Fraud Locally strategy.

The counter fraud policy framework

- 9 This strategy is part of the council's overall framework for countering the risks of fraud and corruption. Further detailed information can be found in other detailed policies and procedures including:
- Counter Fraud and Corruption Policy - this sets out responsibilities for counter fraud and investigation work, the actions the council will take in response to fraud, and its policy on sanctions;
 - Counter Fraud Risk Assessment - a specific risk assessment undertaken to identify counter fraud risks and develop action to address those risks;

- Anti Money Laundering Policy - defines council responsibilities in respect of the Proceeds of Crime Act 2002 and Money Laundering Regulations 2007;
- Whistleblowing Policy - arrangements for council staff to raise concerns, confidentially if required.

10 The strategy also links to, and is supported by, wider council policy and procedures covering areas such as:

- governance
- employee disciplinary arrangements
- codes of conduct
- registers of interest
- financial regulations
- electronic communications
- information security
- cyber security

Appendix 1: Counter Fraud and Corruption Strategy Action Plan

Ref	Action Required	Action Dates	Responsibility	Notes / Further Action Required
1	Prepare a counter fraud strategy which acknowledges fraud risks facing the council and sets overall counter fraud aims. The strategy should highlight links to existing counter fraud related policies and set out actions required for developing counter fraud arrangements.	February 2017	Chief Finance Officer / Veritau	Progress against the strategy to be reviewed annually and reported to the Audit and Governance Committee
2	Prepare an updated counter fraud policy to take account of the latest national guidance, and reflecting changes to the councils counter fraud arrangements following the transfer of benefit fraud investigation to the DWP.	February 2017	Chief Finance Officer / Veritau	Review annually
3	Review and update counter fraud risk assessment. (Note that separate actions are included within the risk assessment to address specific issues identified.)	February 2017	Veritau	To be reviewed at least annually.
4	Develop regional / local data matching and counter fraud exercises (i). A cross boundary data matching exercise on council tax and NNDR discounts and exemptions is in progress. Detailed review of outcomes / investigations now started.	February - October 2017	Veritau	Work to develop targeted local / regional data matching over and above ongoing work (for example as part of the National Fraud Initiative). Results to inform future data matching exercises (see 8).

5	Review and update whistleblowing policy and procedures.	May 2017	Veritau / HR / Monitoring Officer	Work to review existing policy has started. A toolkit for managers will be created alongside the updated policy.
6	Review the extent to which counter fraud risks are identified through service risk management arrangements. Assess whether arrangements can be strengthened with additional specialist counter fraud input (eg through risk workshops).	August - December 2017	Veritau / service managers	Outcomes to inform 2018 fraud risk assessment.
7	Undertake specific fraud awareness training for priority service areas identified through the fraud risk assessment.	October 2017	Veritau	To be undertaken on a rolling basis.
8	Develop regional / local data matching and counter fraud exercises (ii). Review outcomes from earlier exercise (see 4) and determine future target areas and timetable for local / regional data matching.	October - December 2017	Veritau	Areas / timetable of matches for 2018/19 to be determined.
9	Identify tools available for estimating potential fraud exposure / losses. Assess their effectiveness and appropriateness for use as part of counter fraud risk assessment.	November - December 2017	Veritau	Outcomes to inform 2018 fraud risk assessment if appropriate techniques identified.
10	Consider whether specific targets can be set under each of the Fighting Fraud Locally themes.	December 2017	Veritau	Use to refine strategy and action required from 2018/19.
11	Liaise with HR officers to incorporate general counter fraud awareness training into induction training for all new employees.	March 2018	Veritau / HR	Veritau are developing an e-learning fraud awareness application which should be available from 2017/18.
12	Review wider governance and other policies (eg	March 2018	Veritau / relevant	The review will identify

	<p>employee related policies, gifts, interests, financial regulations) to ensure they:</p> <ul style="list-style-type: none"> • cover all required areas • are consistent with the counter fraud strategy and policy. 		policy owners	timescales for updates to individual policies.
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<p>Other Actions to be considered for 2018/19.</p> <ul style="list-style-type: none"> • Review arrangements for raising fraud awareness and communicating information about specific fraud risks. • Review effectiveness and arrangements for collaborating with partners on counter fraud risks (sharing information / coordinating actions). • Review use of technology for analysing fraud risks and determine areas for development.

By virtue of paragraph(s) 7 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Audit and Governance Committee

8 February 2017

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 2017/18, 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. The plan is also informed by the council's risk registers and the results of recent audit work. The council's external auditors are also consulted to avoid possible duplication of work programmes and to maximise the overall benefit of audit activity.

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 2017/18 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. This may include providing direct support / challenge to projects, reviewing project management arrangements, or 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 2017/18. As consultation meetings are still ongoing this should not be regarded as the complete list of audits. The draft plan will be presented to the next meeting of this committee for approval.
- 5 Members views are sought about whether:
- the approach to determining priorities for the 2017/18 audit plan, as set out above, continues to be 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 2017/18

Area	Possible Work
Corporate & cross-cutting	<ul style="list-style-type: none"> • Performance management • Contract management / contracts register • Whistleblowing • Scrutiny • Health & Wellbeing Board • Overtime • Asset management (deferred from 2016/17) • Business continuity & emergency planning
Information Governance	<ul style="list-style-type: none"> • Information security checks • Document management (deferred from 2016/17) • Data quality • Schools' information governance (follow up)

Main financial systems	<ul style="list-style-type: none"> • Main accounting system, creditors and debtors • Income management • Payroll (including the impact of IR35) • Housing rents • Council Tax / NNDR • Council Tax Support and Housing Benefits • Treasury management
Project Management	<ul style="list-style-type: none"> • Ongoing support / challenge to major projects
Health, Housing and Adult Social Care	<ul style="list-style-type: none"> • Better Care Fund • Deprivation of Liberty Assessments • Direct Payments • Public Health • Social care contracting
Economy and Place	<ul style="list-style-type: none"> • Procurement of sub-contractors • Section 106 Agreements
Children, Education and Communities	<ul style="list-style-type: none"> • Schools audits including themed audits • Free Early Education funding • Contributions to Care
ICT	<ul style="list-style-type: none"> • PCI DSS • ICT governance

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 2017/18 and identify any specific areas which should be considered a priority for audit.

Reason

To ensure that scarce audit resources are used effectively.

Contact Details

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Chief Officer Responsible for the report:

Ian Floyd
Director of Customer & Corporate Services
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Report Approved



Date 26/1/17

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

None

Annexes

None

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Audit and Governance Committee8th February 2017

Report of the Deputy Chief Executive/Director of Customer & Corporate Services

Audit & Governance Committee Forward Plan to December 2017**Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to December 2017.

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 2017. 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. A number of minor amendments have been made to the forward plan since the last version was presented to the Committee on 20th December.
4. A second February meeting has been considered and consulted on, but it was subsequently agreed with the Chair that all available business could be completed at this meeting. However, at the time of writing the procurement investigation is due to be completed imminently and therefore an additional meeting will now be held on Wednesday 22 February 2017 to consider the contents of this report.
5. Consideration will be given to additional meetings of the committee should additional agenda items be identified.

6. The Key Corporate Risk Monitor Report and Internal Audit Follow up of Audit recommendations report have both been deferred until the next Committee meeting in April.
7. At the last meeting in December Members requested an update report on Schools Information Governance be brought back to the Committee. This report has been added to the Agenda for the next meeting in April.
8. An overview of the Constitution has been added to the agenda for the meeting in July.

Consultation

9. 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

10. Not relevant for the purpose of the report.

Analysis

11. Not relevant for the purpose of the report.

Council Plan

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

Implications

13.
 - (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

14. 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

15.
(a) The Committee's Forward Plan for the period up to September 2017 be noted.

Reason

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

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

Reason

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

Contact Details

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Ian Floyd
Deputy Chief Executive/Director of
Customer & Corporate Services
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**Report
Approved**



Date 31/01/2017

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 2017

Audit & Governance Committee Draft Forward Plan to December 2017

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

- **Committee 22 February 2017**

Procurement Issues

- **Committee 5th April 2017**

Approval of Internal Audit Plan *(Statutory)*

Internal Audit & Fraud Plan Progress Report

Internal Audit Follow up of Audit Recommendations Report

Mazars Audit Progress Report

Mazars Audit Strategy Report *(Statutory)*

Schools Information Governance update

Key Corporate Risk Monitor (including project risks)

Changes to the Constitution (if any)

- **Committee June 2017**

Draft Annual Governance Statement

Annual Report of the Audit & Governance Committee *(Statutory)*

Mazars Audit progress report

Annual Report of the Head of Internal Audit *(Statutory)*

Key corporate Risk Monitor (including project risks)

Changes to the Constitution (if any)

- **Committee July 2017**

Draft Statement of Accounts (Statutory)

Mazars Audit Progress Report

Information Governance Update Report

Health & Safety update report

Overview of Constitution

- **Committee September 2017**

Mazars Audit Completion Report (Statutory)

Final Statement of Accounts (Statutory)

Follow up of Internal & External Audit Recommendations

Internal Audit & Fraud plan progress report

Key Corporate Risks Monitor (including project risks)

Changes to the Constitution (if any)

- **Committee December 2017**

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

Mazars Annual Audit Report (Statutory)

Mazars Audit Progress Report

Internal Audit & Fraud Progress Report

Information Governance & Freedom of Information Report (including information security)

Changes to the Constitution (if any)