

## Notice of a public meeting of

### Audit & Governance Committee

<b>To:</b>	Councillors Derbyshire (Chair), Dew (Vice-Chair), Shepherd, Cuthbertson, Fenton, Kramm and Steward, Mr Mendus and Mr Mann
<b>Date:</b>	Wednesday, 7 February 2018
<b>Time:</b>	5.30 pm
<b>Venue:</b>	The Thornton Room - Ground Floor, West Offices (G039)

### 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 the following:

Annex 3 to Agenda Item 7 (Counter Fraud: Risk Assessment and Review of Policies) 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 - 10)**

To approve and sign the minutes of the meeting of the Audit & Governance Committee held on 6 December 2017.

**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 6 February 2018**.

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 that, subject to available resources, this meeting will be filmed and webcast, or recorded, including any registered public speakers who have given their permission. This broadcast can be viewed at: <http://www.york.gov.uk/webcasts>.

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[http://www.york.gov.uk/download/downloads/id/11406/protocol\\_for\\_webcasting\\_filming\\_and\\_recording\\_of\\_council\\_meetings\\_20160809.pdf](http://www.york.gov.uk/download/downloads/id/11406/protocol_for_webcasting_filming_and_recording_of_council_meetings_20160809.pdf)

**5. Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators (Pages 11 - 44)**

The report is a statutory requirement setting the strategy for treasury management and specific treasury management indicators for the financial year 2018/19.

**6. Mazars Audit Progress Report (Pages 45 - 54)**

The paper reports on the progress of Mazars, the Council's external auditors, in delivering their responsibilities as auditors. It covers:

- A summary of audit progress
- Meeting the challenges of earlier deadlines
- Housing Benefit Subsidy certification
- Wider update and national publications

**7. Counter Fraud: Risk Assessment & Review of Policies (Pages 55 - 104)**

The report updates the committee on progress against the actions set out in the new counter fraud and corruption strategy and associated plan, and adds new actions for the next financial year. In addition, the council's counter fraud risk assessment has been updated to reflect fraud risks currently facing the council.

**8. Audit & Counter Fraud Plan & Consultation (Pages 105 - 110)**

The purpose of the report is to seek members' views on the priorities for internal audit for 2018/19 to inform the preparation of the annual audit plan.

**9. Health & Safety Follow Up Report (Pages 111 - 116)**

The report is the follow up to the updates received by this Committee on 19 July 2017 and 7 December 2016. Members are asked to note/comment on the progress made in implementing outstanding audit actions.

**10. Audit and Governance Committee Forward Plan (Pages 117 - 124)**

This paper presents the future plan of reports expected to be presented to the committee during the forthcoming year to December 2018.

*Please note: This agenda has been republished on 31 January 2018 to include this standing item, which was omitted through an administrative error.*

## 11. Urgent Business

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

Democracy Officer:

Name: Becky Holloway  
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Email: [becky.holloway@york.gov.uk](mailto:becky.holloway@york.gov.uk)

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

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

Contact details are set out above.

City of York Council

Committee Minutes

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MEETING	AUDIT & GOVERNANCE COMMITTEE
DATE	6 DECEMBER 2017
PRESENT	COUNCILLORS DERBYSHIRE (CHAIR), SHEPHERD, CUTHBERTSON, FENTON, KRAMM, STEWARD, MENDUS AND BROOKS (SUBSTITUTE FOR CLLR DEW)
APOLOGIES	COUNCILLOR DEW

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### 33. 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 had in respect of business on the agenda.

Cllr Steward declared a personal interest as a shareholder in Capita.

Cllr Brooks declared a personal interest as the parent of a Capita employee.

Cllr Derbyshire declared a personal interest as an employee of a school

### 34. MINUTES

Members considered the minutes of the meeting of the Audit and Governance Committee held on 20 September 2017. The following amendments were proposed:

- The addition of the following to the end of minute 22 (minutes) *“The Chair clarified that if members have an item that they want actioning from the minutes they need to raise this and include it into the forward plan”*
- An amendment to the second paragraph of minute 23 (public participation) from *...22 February 2017* as follows *“expressing in the strongest terms her concerns that the LGA Conduct report had been withheld from the Committee. She requested members to demand immediate release of the unredacted report as the delay*

*was further undermining trust and confidence in the officers that Councillors rely upon”*

- The move of the following from the main text of minute 24 (Mazars Audit Completion Report) to form resolution (b) of minute 24: *“The Monitoring Officer will look into options for technical mechanisms to ensure that councillors and officers above a certain level update their declarations of interests at least on an annual basis and report options back to the committee.”*
- The addition of the following resolution to minute 25 (Annual financial report): *“(c) That the Finance & Procurement Manager investigates, if general information can be provided for items for which the council has currently not obtain valuations, but which have an estimated higher value e.g. over £100,000”*
- The addition of the following to the end of paragraph one in minute 26 (LGA procurement peer challenge): *“Mr Satvinder Rana, Programme Manager from the LGA was present in the meeting to present the report”*
- The addition of the following to the end of paragraph two in minute 26: *“Mr Rana also stressed that he is not a procurement expert and cannot answer specific and detailed questions in this regard”*
- The addition of the following paragraph prior to the resolutions of minute 26: *“In response to Members’ queries, the Deputy Chief Executive and the Finance and Procurement Manager confirmed that for every single payment that the council conducts, there is the audit trail in the finance system, who authorised a payment and who raised the payment”.*
- The addition of the following resolution to minute 26: *“(c) That the second report will be published for the committee as soon as possible, if necessary with the full version seen in private session and a redacted copy being public”*
- The addition of the following prior to the resolutions of minute 28 (Audit and counter fraud monitoring): *“In response to Members’ queries, the Head of Internal Audit explained the reasoning why taxi licensing is newly added to the plan.”*
- The addition of the following resolution to minute 28: *“(b) That the Head of Internal Audit (Veritau Ltd) considers member’s suggestions to the layout of the report to enhance the usability for members.”*
- The addition of *“and the Director of City & Environmental Services”* to the first paragraph of minute 29 (Monitor 2

2017/18) and the removal of the following *“It was agreed that one KCR would be presented to the Committee at a time and that the order of presentations would be chronological, i.e. KCR1 (Financial Pressures) would be presented at the next Committee’s meeting, followed by KCR2.”*

- The addition of the following resolutions to minute 29: *“(d) That the committee was satisfied there was sufficient assurance in relation to the governance of major projects, and the Major Project Update annex was no longer required, but that the major project information still needs to be made publicly available on a regular basis. (e) That in addition to the overview of the KCR’s which are currently presented to the Committee in Annex A, it would be beneficial to provide a more in-depth analysis of each KCR. It was agreed that one KCR would be presented to the Committee at a time and that the order of presentations would be chronological, i.e. KCR1 (Financial Pressures) would be presented at the next Committee’s meeting, followed by KCR2.”*
- The move of the following from the main text of minute 30 (Overview of the constitution) to form resolution (b) of minute 30: *“The task and finish group would be formed in order to consider the scope of work in relation to potential improvements to the Constitution. Such work could involve public consultations. The Members of the group would include Cllr Steward, Cllr Derbyshire, Cllr Kramm and one Liberal Democrat Member.”*
- The addition of the following reason relating to the resolution added to minute 30: *“(b) To support the Monitoring Officer to review the operation of the Constitution to ensure that the aims and principles of the Constitution are given full effect.”*
- The insertion of the following after the first sentence of minute 31 (York Environmental Services Consultancy): *“The Head of Public Protection and the Assistant Director Planning and Public Protection were in attendance to answer Members’ questions.”*
- The addition of the following resolutions to minute 31: *“(b) That Director of Customer and Corporate Service seeks assurance that this non-for-profit service is covered by the Council’s public liability insurance. (c) That the relevant Executive member should be involved in the further strategic development of the consultancy including changing it into a for-profit enterprise.”*

- The addition of the following resolution to minute 32 (Forward Plan): *“(c) That the committee would like an update on the recruitment of the second independent person of the committee.”*

Resolved: That the minutes of the meeting held on 20 September 2017 be approved and signed by the Chair with the amendments listed above and with an advisory from the Deputy Chief Executive & Director of Customer & Corporate Services regarding the appending of the Leader’s statement.

### **35. PUBLIC PARTICIPATION**

It was reported that there had been one registration to speak under the Council’s scheme of public participation.

Gwen Swinburn spoke in relation to information governance and transparency within the Council’s audit and governance processes. She questioned the level of redaction of reports and the availability of key reports to members of the council and to the public.

Members asked if Public Participation could be taken further up the agenda of future meetings, prior to the approval of minutes. It was agreed that this would be taken to a future meeting of Group Leaders for their consideration.

### **36. SCRUTINY OF TREASURY MANAGEMENT MID YEAR REVIEW AND PRUDENTIAL INDICATORS 2016/17**

The committee considered the Treasury Management Mid year Review and Prudential Indicators for 2016/17. The Finance and Procurement Manager presented the review, the main report of which had been taken to a previous meeting of the Executive. She reported that the timing of the report’s publication had not allowed an impact analysis of changed interest rates to be included. A review of the treasury code was due in April 2018 with consultation underway. In discussion of the report the following points were made:

- The Council’s three priorities for investment were, in order, security, liquidity and yield
- National guidance was to provide the Audit and Governance Committee with a minimum of bi-annual updates and that this had been agreed previously with members of the committee



- Good governance was the responsibility of everyone but the term “those charged with governance” used in the report referred to the committee as the responsible body.
- The buffers described on page 27 which related to fluctuations in interest rates were not of concern in the current economic climate.

It was agreed that graphs within future reports would be printed in colour.

Resolved: To note the Treasury Management activities to date in 2017/18

To note the Prudential Indicators set out at Annex A of the report and note the compliance with all indicators.

Reason: To ensure the continued performance of the Council’s Treasury Management function.

**37. LOCAL GOVERNMENT ASSOCIATION CORPORATE PROCUREMENT PEER REVIEW**

Members considered a report on the progress made in delivering the recommendations of the Local Government Association (LGA) external peer review of corporate procurement within the Council. The initial feedback report had been presented in September and this report was intended to provide a brief update. It was explained that Yortender would be rolled out in early 2018 and that York remained active participants in regional groups.

Members felt that the initial reviews were unwelcome but that given they had been completed the results should be provided in full and that the peers who had done the review should provide answers to the questions posed by the committee. It was agreed that the LGA response would be circulated and that their request would be put to the reviewers.

Resolved: To note the report and to request from the LGA further illumination on the answers received regarding the external peer review.

Reason: To update the Committee on the actions taken.

**38. MAZARS ANNUAL AUDIT LETTER 2016/17**

Members considered the annual letter from the external auditors for 2016/17. Two following points were made or clarified:

- The completion certificate was provided in page 79 of the pack. It was hoped that the ongoing work would be completed in early 2018.
- The fees were set out on page 93 of the pack and it was reported that the Council had opted into the collected-tender process.
- Members expressed disappointment with the management response provided on page 83 of the pack and were concerned this may result in poor publicity.
- Emphasis had been put on improving Declaration of Interest procedures in previous years and it was reported that this had been subject to the internal audit process.

Resolved: That the matters set out in the Annual Audit report of the external auditor be noted

Reason: To ensure proper consideration of the opinion and conclusions of the external auditor in respect of the annual audit of accounts and review of the council's arrangements for ensuring value for money.

**39. MONITOR 3 2017/18 - KEY CORPORATE RISKS**

Members received an update report on the key corporate risks for City of York Council.

It was explained that the matrix on page 125 of the pack showed where specific risks fell in regards to their impact and likelihood. The scores allocated provided information about the consequences of a risk in order to reduce the likelihood of those implications. It was not possible to change the risk, only the consequences.

It was reported that the factors driving up the cost of landfill tax had been mitigated in part by the introduction of the waste incinerator.

Resolved: To note the report

Reason: To update the Committee.

#### **40. AUDIT & COUNTER FRAUD MONITORING REPORT**

Members received two reports: Identified breaches; and the current status of the audit plan. In response to questions the following points were made:

- Concerns were expressed that the heavy redactions made to some public reports may lead to more negative conclusions being reached than was merited.
- It was explained that the internal audit process was designed to identify potential weaknesses and highlight areas of risk for service managers to consider and respond to.
- The agreed actions following audits included the response of the relevant manager and a follow up exercise was completed to ensure actions had been completed as stated.
- It was explained that the schedule of internal audits was not made public as sometimes it was necessary to change audit start dates. It was agreed to look into options for enabling the audit committee to understand the schedule more comprehensively.

Resolved: To receive an update on progress made in delivering the internal audit work plan for 2017/18 and on current counter fraud activity.

To request the inclusion in future work plans of the scheduled start date for audits and an explanation should they be delayed.

To receive future reports counter fraud monitoring reports by email (on the understanding that these are kept confidential).

Reason: To keep members of the committee updated on the Council's Internal Audit and Counter-Fraud activity.

#### **41. REVIEW OF THE EFFECTIVENESS OF THE AUDIT & GOVERNANCE COMMITTEE**

It was agree to defer this item to a future meeting of the Audit and Governance Committee.

## 42. INFORMATION GOVERNANCE REPORT

Members considered an update on information governance performance, General Data Protection Regulation (GDPR) and the NHS Digital Audit. The Information Governance and Feedback Team Manager was in attendance to respond to Members' questions. During discussion the following points were raised:

- Considerable work had been done to ensure the council was on track for data compliance. An asset register had been implemented to monitor how data was stored and disposed of as well as mapping how it was shared. All directorates had begun this process which would enable accountability and provide a priority base from which to tackle key risks.
- Service areas which relied on consent to collect and store data would need to be reviewed in line with the forthcoming Data Protection Bill. A report would be presented to the Audit and Governance Committee prior to the Bill's effective date.
- Staff learning and development had been planned for between January and April 2018 and a plan would then be put in place to address any outstanding training needs. Training took a range of forms including compulsory e-learning and more in-depth job-specific training sessions for some staff.
- The fines and penalties related to non-compliance would remain in place following exit from the European Union and had been increased. Work was needed to align the local authority with the GDPR, particularly around reliance of 'legitimate reasons' for holding data, the reduction in Subject Access Request deadlines, and new 'Right to be forgotten' legislation.

Resolved: To note the report including the sustained performance levels and the ongoing work required to ensure the Council meets its information governance responsibilities

To request a report on complaints be received at a future meeting of the Audit and Governance Committee.

Reason: To keep the Committee updated on the work of the Council to meet its information governance responsibilities.

**43. AUDIT & GOVERNANCE COMMITTEE FORWARD PLAN TO SEPTEMBER 2018**

Members considered the plan of reports expected to be presented to the committee over the forthcoming year. An additional two items were added as follows:

- February 2018 – To receive the response of the LGA peer reviewers as requested under minute item 37.
- April 2018 – To receive a report on technical options for compliance with declaration of interests requirements.

A request was made in respect of the internal audit investigation report into the procurement of an external consultant which was brought to the Audit and Governance Committee on 22 February 2017. The resolution of the meeting on that date had been to ask the Council Executive to “consider whether further work was required to identify whether the work referred to represented value for money.” It was explained that this had been considered by the Council Leadership team rather than at a formal meeting of the Executive. Members asked that their request of 22 February 2017 be re-made in order to allow the report to be discussed in public and that formal communication be received from the Executive should they decide not to take this course of action.

Resolved: To note the forward work plan to September with the above additions.

To request a report be taken to Executive in respect of paragraph 2.19 of the Internal Audit Report taken to the Audit and Governance Committee on 22 February 2017, to consider whether further work was required to identify whether the work referred to represented value for money.

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

**PART B - MATTERS REFERRED TO COUNCIL**

**44. CONTRACT PROCEDURE RULES UPDATE**

Members considered the report which set out proposed changes to the Council’s Contract Procedure Rules. Debbie Mitchell, Finance and Procurement Manager was in attendance to take questions. The officer highlighted the main changes and

explained that the proposed changes were the outcome of comments from staff and members.

The committee discussed the report and suggested a number of amendments, detailed in the resolution below. They also asked that a schedule of compliance breaches be maintained and reported to the Audit Committee annually.

Members discussed Yortender, its use in managing and co-ordinating procurement processes, and the support and guidance available to staff who were required to use it.

Recommendation: That Council approves the revised Contract Procedure Rules, with the following amendments:

- A change from “should” to “must” throughout the document to emphasis the importance of the specified actions and procedures.
- The addition of the following sentence to section 7.9 on page 9: “An updated register of routine procurement must be presented regularly to the executive member for finance and performance.”
- Removal of the word “regularly” from the final sentence of page 29 (section 26) relating to the report of breaches.
- Removal of delegated authority to the Chief Finance Officer to vary the spending limit of £5000 specified on page 8 (section 4.3 and 4.4)
- A change to section 2.1.3 (page 6), from “may be brought” to “must be brought and from “or” to “and”
- The addition of a requirement in section 4.4 (page 8) to maintain an ongoing schedule of contracts not using Yortender.

Reason: To ensure appropriate governance of the Council’s purchasing activity

Cllr F. Derbyshire, Chair  
[The meeting started at 5.30 pm and finished at 8.00 pm].



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**Agenda Item**

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**Audit and Governance Committee****7 February 2018**

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

**Scrutiny of the Treasury Management Strategy Statement and Prudential Indicators for 2018/19 to 2022/23****Summary**

1. This report is a statutory requirement setting the strategy for treasury management and specific treasury management indicators for the financial year 2018/19. The strategy is set against a context of projected interest rates and the Council's capital expenditure programme and leaves investment criteria and limits largely unchanged.
2. The Council has significant investments and borrowing which bring with them financial risk including the loss of invested funds and the revenue impact of changes in interest rates. It therefore requires an overall strategy as well as practices and procedures to identify, monitor and control the risks.

**Background**

3. The Treasury Management Strategy Statement and Prudential Indicators 2018/19 to 2022/23 are attached at annex A and cover the:
  - Integrated treasury management strategy statement including the annual investment strategy and the minimum revenue provision policy statement;
  - Prudential indicators
  - Revised treasury management policy statement
  - Specified and non-specified investments schedule
  - Treasury management scheme of delegation and role of the section 151 officer
4. CIPFA and DCLG have been reviewing and consulting on the regulatory requirements and in December 2017 CIPFA issued a revised treasury Management Code of Practice and a revised Prudential Code. These revisions have focused on non-treasury investments and especially on the purchase of property with a view to generating income. CIPFA has also issued a statement that accepts that the issue of revised codes at this late stage in the year will make it very difficult to implement both codes. Accordingly, full implementation is not expected until 2019/20. Where

applicable, this report meets the requirements of the guidance that has been issued to date. The statutory guidance will be reviewed once available and any changes required will be reported to this committee.

### **Consultation**

5. 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 8<sup>th</sup> February 2018.

### **Options**

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

### **Council Plan**

7. 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**

8. The revenue implications of the treasury strategy are set out in the revenue budget report to be considered by Executive on 8th February 2018.

#### **Legal Implications**

9. 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**



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

## Risk Management

11. The treasury management function is a high-risk area because of the volume and level of large money transactions. As a result of this the Local Government Act 2003 (as amended), 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

12. Audit and Governance Committee are asked to:

- a. note the treasury management strategy statement and prudential indicators for 2018/19 to 2022/23 at annex A.

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

<b>Contact Details</b>	
<b>Author</b>	<b>Chief Officer responsible for the report</b>
Debbie Mitchell Finance & Procurement Manager Ext 4161	Ian Floyd Deputy Chief Executive / Director of Customer and Corporate Services
Sarah Kirby Principal Accountant Ext 1635	
	Report approved <b>date</b>
<b>Wards affected</b>	All

## Annexes

Annex A – Treasury Management Strategy Statement and Prudential Indicators for 2018/19 to 2022/23

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## Agenda Item

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**Executive**

**8 February 2018**

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

### **Treasury Management Strategy Statement and Prudential Indicators for 2018/19 to 2022/23**

#### **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 2018/19 financial year.

#### **Recommendations**

2. Executive are asked to recommend that Council approve:
  - The proposed Treasury Management Strategy for 2018/19 including the annual investment strategy and the minimum revenue provision policy statement;
  - The prudential indicators for 2018/19 to 2022/23 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 currently 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 scrutinised 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.

## **Capital Strategy**

9. In December 2017, CIPFA issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -
- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
  - an overview of how the associated risk is managed
  - the implications for future financial sustainability
10. The aim of this report is to ensure that elected members fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy. The Council already covers much of this within the existing Capital Strategy report (elsewhere on this agenda). However, we will continue to review the information included to ensure we reflect the statutory guidance in this area.
11. The Capital Strategy will include, along with the capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

## **Treasury management strategy for 2018/19**

12. The treasury management strategy for 2018/19 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

13. 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 2018/19 – 2022/23

14. 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.

15. 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 4: External debt
- PI 5a: Authorised limit for external debt
- PI 5b: Operational boundary for external debt
- PI 5c: Housing revenue account (HRA) debt limit
- PI 6: Maturity structure of debt
- PI 7: Surplus funds invested >364 days

16. **Prudential indicator 1 - capital expenditure.** This prudential Indicator is a summary of the Council's capital expenditure plans forming part of this budget cycle. 2017/18 is included as a comparator. Detailed information on the individual schemes is provided in the capital monitor 3 and capital strategy report.

Capital Expenditure	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
General fund (Non HRA)	72.0	105.0	50.3	36.0	30.1	10.9
Housing revenue account	23.6	23.7	16.3	14.2	14.0	14.1
<b>Total</b>	<b>95.5</b>	<b>128.7</b>	<b>66.6</b>	<b>50.2</b>	<b>44.1</b>	<b>25.0</b>

Table 1: Capital expenditure

17. 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 2018/19.
18. Further details on this capital expenditure, and how it is funded, are included within the Capital Strategy report elsewhere on this agenda.
19. **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.
20. The CFR does not increase indefinitely, because the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.
21. 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. As set out in paragraph 39 table 5 the projected level of debt is significantly below the CFR over the 5 year period.
22. Table 2 below, shows the capital financing requirement, excluding other long term liabilities:

Capital Financing Requirement	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Non Housing	210.3	244.0	243.1	240.0	236.8	233.7
Housing	139.0	139.0	139.0	139.0	139.0	139.0
<b>Total CFR</b>	<b>349.3</b>	<b>383.0</b>	<b>382.1</b>	<b>379.0</b>	<b>375.8</b>	<b>372.7</b>

Table 2: Capital financing requirement (CFR)

### **Minimum revenue provision (MRP) policy statement**

23. The Council is required to pay off an element of the accumulated general fund 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).
24. CLG regulations require full Council to approve an MRP statement in advance of each year. A variety of options are provided to councils, so long as there is prudent provision.
25. Full Council is requested to approved the following MRP statement: For capital expenditure incurred before 1 April 2008 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.
26. This provides for a 3% reduction in the borrowing need (CFR) each year.
27. From 1 April 2008 for all 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);
28. 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 debt is repaid over a shorter period. Estimated asset life periods will be determined under delegated powers. With all debts, the longer the repayment period the higher the amount of interest incurred over the period of the loan and accordingly it is deemed prudent to reduce the period over which the repayments are made.
29. 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).
30. Repayments included in annual PFI or finance leases are also applied as MRP.

### **Affordability prudential indicators**

31. 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.



**32. 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	2017/18 Estimate %	2018/19 Estimate %	2019/20 Estimate %	2020/21 Estimate %	2021/22 Estimate %	2022/23 Estimate %
Non-HRA	10.91	11.73	12.73	13.06	13.11	13.21
HRA	12.99	13.23	13.23	13.23	13.23	13.23

Table 3: Ratio of financing costs to net revenue stream

33. The estimates of financing costs include current commitments and the proposals in the capital budget report considered elsewhere on this agenda.

34. 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

35. 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**

36. The Council's treasury portfolio position at 25th January 2018 is detailed below in table 4:

Institution Type	Principal	Average Rate
<u>Public Works Loan Board (PWLB)</u> – Money borrowed from the Debt Management Office (Treasury Agency)	£235.1m	3.64%
<u>Market Loans</u>		
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%

<u>West Yorkshire Combined Authority</u>	£1.8m	0.00%
WYCA (2) – Zero interest loans the purpose of which are to help to fund York Central infrastructure projects		
<b>Total Gross Borrowing (GF &amp; HRA)</b>	<b>£256.9m</b>	<b>3.76%</b>
<b>Total Investments</b>	<b>£114.0m</b>	<b>0.42%</b>

Table 4: Current position at 25th January 2018

37. The Council had £256.9m of fixed interest rate debt, of which £139m was HRA and £117.9m general fund. The cash balance available for investment was £114.0m. 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.
38. 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 2018/19 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.
39. **Prudential indicator 4 – external debt** Table 5 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.

	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
<b>Gross projected debt</b>	<b>261.8</b>	<b>251.6</b>	<b>270.5</b>	<b>285.3</b>	<b>288.2</b>	<b>293.3</b>
Total CFR	349.3	383.0	382.1	378.9	375.8	372.7
<b>Under/(over) borrowed</b>	<b>Under</b>	<b>Under</b>	<b>Under</b>	<b>Under</b>	<b>Under</b>	<b>Under</b>

Table 5: External debt &lt; capital financing requirement

40. Table 5 shows a gap between actual and estimated 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 up to 2018/19 before a decrease from 2019/20 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

41. **Prudential indicator 5A – 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	2017/18 (set at 17/18 Strategy) £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Borrowing	256.9	246.9	265.9	280.9	283.9	289.2
Total CFR	353.5	383.0	382.1	379.0	375.8	372.7
Operational Boundary	363.5	393.0	392.1	389.0	385.8	382.7
Other long term liabilities	30.0	30.0	30.0	30.0	30.0	30.0
<b>Total</b>	<b>393.5</b>	<b>423.0</b>	<b>422.1</b>	<b>419.0</b>	<b>415.8</b>	<b>412.7</b>

Table 6: Authorised borrowing limit

42. **Prudential indicator 5B – 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	2017/18 (set in 17/18 strategy) £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Borrowing	256.9	246.9	265.9	280.9	283.9	289.2
Total CFR	353.5	383.0	382.1	379.0	375.8	372.7
Short term liquidity	10.0	10.0	10.0	10.0	10.0	10.0
<b>Total</b>	<b>363.5</b>	<b>393.0</b>	<b>392.1</b>	<b>389.0</b>	<b>385.8</b>	<b>382.7</b>

Table 7: Operational boundary

43. 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	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
<b>Total HRA</b>	<b>146.0</b>	<b>146.0</b>	<b>146.0</b>	<b>146.0</b>	<b>146.0</b>	<b>146.0</b>

Table 8: HRA debt limit

### Prospects for interest rates

44. 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 has appointed Link Asset Services as its treasury adviser. Part of their service is to assist the Council in formulating a view on interest rates. Table 9 below gives Link's central view:

	Bank rate %	PWLB borrowing rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Dec 2017	0.50	1.50	2.80	2.50
Mar 2018	0.50	1.60	2.90	2.60
Jun 2018	0.50	1.60	3.00	2.70
Sep 2018	0.50	1.70	3.00	2.80
Dec 2018	0.75	1.80	3.10	2.90
Mar 2019	0.75	1.80	3.10	2.90
Jun 2019	0.75	1.90	3.20	3.00
Sep 2019	0.75	1.90	3.20	3.00
Dec 2019	1.00	2.00	3.30	3.10
Mar 2020	1.00	2.10	3.40	3.20
Dec 2020	1.25	2.30	3.60	3.40
Mar 2021	1.25	2.30	3.60	3.40

Table 9 – Link's interest rate forecast

45. As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting on 2 November. This removed the emergency cut in August 2016 after the EU referendum. The MPC also gave forward guidance that they expected to increase Bank Rate only twice more by 0.25% by 2020 to end at 1.00%. The Link Asset Services forecast above includes Bank Rate increase of 0.25% in November 2018, November 2019 and August 2020.
46. 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 more protracted move from bonds to equities after a historic long term trends, over about the last 25 years, of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial Quantitative Easing, added further impetus to this downward trend in bond yields and rising bond prices. Quantitative Easing has also directly led to 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 in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. Has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.
47. 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 stronger economic growth becomes more firmly established. The Fed. has started raising interest rates and this trend is expected to continue during 2018 and 2019. These increases will 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 are likely to exert some upward pressure on bond yields in the UK and other developed economies. However, 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 towards the reversal of monetary policy away from quantitative easing and other credit stimulus measures.
48. From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.
49. 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.

50. The overall balance of risks to economic recovery in the UK is probably to the downside, particularly with the current level of uncertainty over the final terms of Brexit.

51. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- The Bank of England takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system.
- Weak capitalisation of some European banks.
- Germany is still without an effective government after the inconclusive result of the general election in October. In addition, Italy is to hold a general election on 4 March and the anti EU populist Five Star party is currently in the lead in the polls, although it is unlikely to get a working majority on its own. Both situations could pose major challenges to the overall leadership and direction of the EU as a whole and of the individual respective countries. Hungary will hold a general election in April 2018.
- The result of the October 2017 Austrian general election has now resulted in a strongly anti-immigrant coalition government. In addition, the Czech ANO party became the largest party in the October 2017 general election on a platform of being strongly against EU migrant quotas and refugee policies. Both developments could provide major impetus to other, particularly former Communist bloc countries, to coalesce to create a major block to progress on EU integration and centralisation of EU policy. This, in turn, could spill over into impacting the Euro, EU financial policy and financial markets.
- Rising protectionism under President Trump
- A sharp Chinese downturn and its impact on emerging market countries

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

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too

strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields.
- The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing, which then leads to a fundamental reassessment by investors of the relative risks of holding bonds, as opposed to equities. This could lead to a major flight from bonds to equities and a sharp increase in bond yields in the US, which could then spill over into impacting bond yields around the world.

### **Investment and borrowing rates**

53. Investment returns are likely to remain low during 2018/19 but to be on a gently rising trend over the next few years.
54. Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Apart from that, there has been little general trend in rates during the current financial year. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;
55. There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns.

### **Borrowing strategy**

56. The overall 5 year capital programme could require additional net borrowing of £32.3m over the next 5 years to 2022/23. However, we do not currently envisage taking any new borrowing within 2018/19 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 Indicator 6 – Maturity of borrowing**

62. Officers will monitor the balance between variable and fixed interest rates for borrowing and investments to ensure the Council is not exposed to adverse fluctuations in fixed or variable interest rate movements. This is likely to reflect higher fixed interest rate borrowing if the borrowing need is



high or fixed interest rates are likely to increase, a higher variable rate exposure if fixed interest rates are expected to fall. Conversely if shorter term interest rates are likely to fall, investments may be fixed earlier, or kept shorter if short term investment rates are expected to rise.

63. The balance between variable rate debt and variable rate investments will be monitored as part of the overall treasury function in the context of the overall financial instruments structure and any under or over borrowing positions. The Council does not currently have any variable rate debt.
64. The upper and lower limits for the maturity structure of fixed rate borrowing are set out below (with actual split for the current financial year included for comparison). 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.

<b>Maturity structure of borrowing</b>				
	<b>Lower</b>	<b>Upper</b>	<b>2017/18 Debt (%)</b>	<b>2017/18 Debt (£)</b>
Under 12 months	0%	30%	6%	£15.0m
12 months to 2 years	0%	30%	2%	£6.0m
2 years to 5 years	0%	40%	11%	£26.7m
5 years to 10 years	0%	40%	25%	£65.0m
10 years and above	30%	90%	56%	£144.2m
<b>Total Borrowing</b>			<b>100%</b>	<b>£256.9m</b>

Table 10: Maturity structure of borrowing

### **Policy on borrowing in advance of need**

65. 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.
66. 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.
67. 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**

68. 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).
69. 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).
70. 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.
71. All rescheduling will be reported to the Executive / Audit & Governance Committee at the earliest meeting following its action.

## **Municipal Bond Agency**

72. 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**

73. 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.
74. 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.

75. 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.
76. 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.
77. 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.
78. The Council continues to take a prudent approach to investing funds as set out in the creditworthiness policy below.

### **Creditworthiness policy**

79. This Council applies the creditworthiness service provided by Link 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
80. 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*

81. The Link 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.
82. 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.
83. 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 Link Asset Services 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.
84. 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 Link.
85. 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

86. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

87. For 2018/19 the average balance is forecast (as at January 2018) at £85.2m ranging between a low point of £31.9m and high point of £102.9m. 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.

88. Bank rate is forecast to remain unchanged at 0.50% until quarter 3 2018/19 and not rise above 0.75% until quarter 3 2019/20. Bank rate forecasts for financial year ends (March) are:

2018/19	0.75%
2019/20	1.00%
2020/21	1.25%

89. 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.

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

2018/19	0.50%
2019/20	0.75%
2020/21	1.00%

91. Therefore for 2018/19, the Council has budgeted for an investment return target of 0.50% on investments placed during the financial year and uses the 7 day LIBID rate as a benchmark for the rate of return on investment.

92. **Prudential indicator 7** - total principal investment funds invested for greater than 364 days. This limits is set with regards to the Council's liquidity requirements and are based on the availability of funds after each year-end. A maximum principal sum to be invested for greater than 364 days is £15m.

	2017/18 Estimate £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Maximum limit per year for Investments > 364 days	15.0	15.0	15.0	15.0	15.0	15.0

Table 11: Maturity structure of borrowing

93. 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**

94. The Council uses Link Asset Services, Treasury solutions (formerly Capita Asset Services) as its external treasury management advisors.

95. 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.

96. 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**

97. 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**

98. 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, Link Asset Services. Link 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.

99. 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.
100. 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**

101. 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**

102. The financial implications of the treasury strategy are set out in the Financial Strategy Capital Strategy reports also on this agenda.

#### **Human Resources (HR)**

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

#### **Equalities**

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

#### **Legal Implications**

105. 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

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

### Risk management

107. 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.

<b>Report authors:</b>	<b>Chief officer responsible for the report:</b>		
Debbie Mitchell Finance & Procurement Manager Tel: 01904 554161	Ian Floyd Director of Customer & Corporate Services		
Sarah Kirby Principal Accountant Tel 01904 551635	<b>Report Approved</b>	x	<b>Date</b>
<b>Wards Affected: Not Applicable</b>			

**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 2019-2021

## Link Asset Services Interest Rate View

	Mar 2018	June 2018	Sept 2018	Dec 2018	Mar 2019	June 2019	Sept 2019	Dec 2019	Mar 2020	June 2020	Sept 2020	Dec 2020	Mar 2021
<b>Bank Rate</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.75%</b>	<b>0.75%</b>	<b>0.75%</b>	<b>0.75%</b>	<b>1.00%</b>	<b>1.00%</b>	<b>1.00%</b>	<b>1.25%</b>	<b>1.25%</b>	<b>1.25%</b>
<b>5yr PWL rate</b>	<b>1.60%</b>	<b>1.60%</b>	<b>1.70%</b>	<b>1.80%</b>	<b>1.80%</b>	<b>1.90%</b>	<b>1.90%</b>	<b>2.00%</b>	<b>2.10%</b>	<b>2.10%</b>	<b>2.20%</b>	<b>2.30%</b>	<b>2.30%</b>
<b>10yr PWL rate</b>	<b>2.20%</b>	<b>2.30%</b>	<b>2.40%</b>	<b>2.40%</b>	<b>2.50%</b>	<b>2.60%</b>	<b>2.60%</b>	<b>2.70%</b>	<b>2.70%</b>	<b>2.80%</b>	<b>2.90%</b>	<b>2.90%</b>	<b>3.00%</b>
<b>25yr PWL rate</b>	<b>2.90%</b>	<b>3.00%</b>	<b>3.00%</b>	<b>3.10%</b>	<b>3.10%</b>	<b>3.20%</b>	<b>3.20%</b>	<b>3.30%</b>	<b>3.40%</b>	<b>3.50%</b>	<b>3.50%</b>	<b>3.60%</b>	<b>3.60%</b>
<b>50yr PWL rate</b>	<b>2.60%</b>	<b>2.70%</b>	<b>2.80%</b>	<b>2.90%</b>	<b>2.90%</b>	<b>3.00%</b>	<b>3.00%</b>	<b>3.10%</b>	<b>3.20%</b>	<b>3.30%</b>	<b>3.30%</b>	<b>3.40%</b>	<b>3.40%</b>

**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	N/A	£15m	6 months
UK Government Treasury Bills	UK sovereign rating	£15m	1 year
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. Money Market Funds CNAV	AAA	£15m	Liquid
2. Money Market Funds LVNAV	AAA	£15m	Liquid
3. Money Market Funds VNAV	AAA	£15m	Liquid
4. Ultra-Short Dated Bond Funds	AAA	£15m	Liquid
5. Bond Funds	AAA	£15m	Liquid

**CNAV – constant net asset value**

**LVNAV – low volatility net asset value**

**VNAV – variable net asset value**

**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

- France
- United Arab Emirates
- United Kingdom

AA-

- Belgium
- Qatar

**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.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
  - *Risk management, including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments;*
  - *Decision making, governance and organisation, including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
  - *Reporting and management information, including where and how often monitoring reports are taken;*
  - *Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

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**Agenda Item****Audit and Governance Committee**7<sup>th</sup> February 2018

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

**Mazars Audit Update 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) Meeting the challenges of earlier deadlines
  - c) Housing Benefit Subsidy certification
  - d) Wider update and national publications

**Consultation**

3. 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**

4. Not relevant for the purpose of the report.

**Analysis**

5. Not relevant for the purpose of the report.

**Council Plan**

6. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation'.

**Implications**

7. There are no implications to this report.

**Risk Management**

8. Not relevant for the purpose of the report

**Recommendations**

9. 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:**

Emma Audrain  
Technical Accountant  
Corporate Finance

**Chief Officer Responsible for the report:**

Ian Floyd  
Deputy Chief Executive/ Director of CCS

**Report  
Approved**



**Date**

**Specialist Implications Officers**

**Wards Affected:** Not applicable

**All**

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

**Background Papers:**

None

**Annexes**

Mazars CYC Audit Update Report February 2018

# Audit Update Report

## City of York Council

February 2018



# CONTENTS

1. Audit progress
2. Meeting the challenge of earlier deadlines
3. Housing Benefit Subsidy certification
4. Wider update and national publications

This document has been prepared for the sole use of the Audit and Governance Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents.

# 1. AUDIT PROGRESS

## 2017/18 audit planning

We are in the process of completing the planning phase of the audit, which focuses primarily on:

- updating our understanding of the Council and its control environment;
- forming initial risk assessments for our audit and value for money responsibilities;
- developing our audit strategy; and
- undertaking early substantive testing of items as at the month 9 ledger position.

Although this work is yet to be completed, we are pleased to report that, at this stage, we have no matters to bring to the Committee's attention in relation to our planning activity.

We will issue our Audit Strategy Memorandum that sets out the results of our planning work as well as giving audit committee members information on significant audit and value for money risks and how we intend to address those risks. We intend to present the Audit Strategy Memorandum at the April Audit and Governance Committee meeting.

We also intend to do early work on the Council's existing schools PFI scheme, following up on prior year findings in relation to the appropriateness of the accounting treatment adopted, as well as considering the Council's proposed treatment for the new scheme at Allerton Park in conjunction with North Yorkshire County Council. In respect of the latter, we will liaise with the County Council's auditor (KPMG) to ensure a consistent approach is taken across the two Councils.

## Objection to the 2016/17 statement of accounts

Members will be aware that we received objections to the Council's 2016/17 accounts from a local elector in respect of two separate items of account. Given the nature of the items of account subject to objection, we were satisfied that they did not give us any reason to believe that the items could have led to a material misstatement in the Council's financial statements. We gave our opinion on the financial statements in September 2017 but were not able to issue our certificate formally closing the audit for the 2016/17 financial year as we had not yet discharged our responsibilities to determine the objections.

Since September we have been gathering information and evidence, making enquiries of officers and carrying out other work in order to determine our response to the objections. Our work is nearing conclusion and we intend to write to the elector setting out our determinations in the coming weeks.

1. Audit progress

2. Meeting the challenge of earlier deadlines

3. Housing Benefit Subsidy certification

4. Wider update and national publications

## 2. MEETING THE CHALLENGE OF EARLIER DEADLINES

### Background

As we have previously reported, the Council must adhere to the revised accounts publication timetable set out in the Accounts and Audit Regulations 2015, for the first time for the 2017/18 financial statements. The deadlines are outlined in the table below.

Requirement	New deadline	Old deadline	Change
Publish draft statement of accounts and accompanying information	31 May	30 June	1 month earlier
Publish audited statement of accounts and accompanying information	31 July	30 Sept	2 months earlier

As a result of the changes in both deadlines, the period within which electors and other parties can exercise their rights in relation to the Council's statement of accounts will also change.

### How we're managing the earlier deadlines

In order to help meet the new deadlines, officers have agreed a protocol with us that outlines overall principles for the audit and performance expectations for aspects such as query response times. Although this will not fundamentally change the way we work with the Council's finance team, it has been useful to discuss and codify mutual expectations.

We have also changed the pattern of our work so that we will carry out our testing on certain areas of the accounts in advance of the financial statements being published. As outlined in section 1, this work is currently being delivered.

### Implications for the Audit and Governance Committee

As has been commonplace in other sectors, such as in the NHS which already has significantly tighter accounts preparation and audit deadlines, it is likely that the audit will not be fully complete at the point we report to the Committee in our Audit Completion Report, in July. Where there is audit work outstanding at the point we issue our Audit Completion Report, we will detail the outstanding areas of work and provide members with a verbal update at the July meeting, followed-up with a formal letter to the Committee outlining the results of the outstanding testing.

Where audit deadlines are tight, it is also relatively common for late amendments to the financial statements to be made by management following the completion of our audit work. Members may wish to discuss arrangements for obtaining amended financial statements outside of the standard timetable for papers.

1. Audit progress

2. Meeting the challenge of earlier deadlines

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### 3. HOUSING BENEFIT SUBSIDY CERTIFICATION

#### Background

As the Council's appointed auditor, we act as an agent of Public Sector Audit Appointments (PSAA) who are responsible for making certification arrangements for specified claims and returns, including the Housing Benefit Subsidy return. In 2016/17 this return was the only piece of certification work we undertook as an agent of PSAA.

We are required to follow a work programme, prescribed by PSAA and agreed with the Department for Work and Pensions (DWP). On completion of our work we issue a certificate which states whether the claim has been certified with or without amendment, and with or without qualifications.

In the event that we issue a qualification letter, the grant paying body, in this case the DWP, may decide that it will withhold or claw-back funding from the Council.

#### Results of our testing

We completed our work and reported to DWP in advance of the deadline at the end of November. The results of our work are outlined below.

Claim or return	Value of return	Amended?	Qualified?
Housing Benefit Subsidy return	£40,484,425	No	No

#### Our fees

PSAA outlines an indicative fee for the Housing Benefit Subsidy certification work on an annual basis. We confirm that our fees for certification of the 2016/17 return were in line with the indicative fee set by PSAA of £11,415 (£11,679 in 2015/16).

In April 2017, we wrote to the Council outlining our fees for the 2017/18 year, including the indicative fee for the certification of the Housing Benefit Subsidy return. At the time of writing, PSAA had not set its fees and we reported that it was likely that the indicative fee would be in line with the fee for 2016/17 of £11,415. PSAA has now confirmed that the indicative fee for City of York Council for 2017/18 is £11,679.

#### The future of assurance work on Housing Benefit Subsidy

2017/18 is the final year that we will certify the Council's Housing Benefit Subsidy return as an agent of PSAA. From next year, local authorities will need to appoint an independent reporting accountant to provide assurance services under a new framework that will be put in place by the DWP.

We are supporting the DWP and the Institute of Chartered Accountants in England and Wales (ICAEW) to finalise the framework that will be adopted under the new regime.

1. Audit progress

2. Meeting the challenge of earlier deadlines

3. Housing Benefit Subsidy certification

4. Wider update and national publications

## 4. WIDER UPDATE AND NATIONAL PUBLICATIONS

### Update areas

1	PSAA audit procurement and fee consultation
2	PSAA Report on the results of auditors' work 2016/17: Local government bodies
3	PSAA Annual Report on Regulatory Compliance and Quality 2017
4	Sustainability and Transformation in the NHS, National Audit Office, January 2018

#### 1. PSAA audit procurement and fee consultation

For audits of 2018/19 local government accounts, PSAA is specified as an appointing person under the Local Audit and Accountability Act 2014, meaning that any local authority that opted-in to the sector-led audit procurement exercise will have their auditor appointed by PSAA. As Members are aware, the Council opted in to the PSAA procurement conducted in 2017.

Following consultation, PSAA has confirmed that Mazars has been appointed to audit the Council's accounts from 2018/19 onwards and we look forward to continuing to work with the Audit and Governance Committee in that role.

#### 2. PSAA Report on the results of auditors' work 2016/17: Local government bodies

Members may be interested in the overall themes presented in PSAA's annual report on the result of auditors' work in the local government sector. The report can be found on [PSAA's website](#).

#### 3. PSAA Annual Reporting on Regulatory Compliance and Quality 2017

PSAA has recently issued its annual report for 2017 on the regulatory compliance and quality of its audit suppliers. PSAA uses a RAG rating to score the compliance and audit quality of the five firms appointed as auditors to principal local authorities. A summary of the results is provided below and the report can be found on [PSAA's website](#).

Firm	BDO	EY	GT	KPMG	Mazars
Firm rating	Amber	Amber	Amber	Amber	Green

#### 4. Sustainability and Transformation in the NHS, National Audit Office, January 2018

Additional funding, aimed to help the NHS get on a financially sustainable footing, has instead been spent on coping with existing pressures, according to the National Audit Office's (NAO) report.

The NAO has made a number of recommendations to the Department, NHS England and NHS Improvement, which includes moving further and faster towards aligning nationwide incentives, regulation and processes, as well as reassessing how best to allocate the sustainability and transformation funding.

<https://www.nao.org.uk/report/sustainability-and-transformation-in-the-nhs/>

1. Audit progress

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## Agenda Item

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### Audit and Governance Committee

7 February 2018

Report of the Head of Internal Audit

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### Counter Fraud Framework Update

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#### Summary

- 1 The council approved a new counter fraud and corruption strategy and associated action plan in 2017. This report updates the committee on progress against the actions set out in the strategy and adds new actions for the next financial year. In addition the council's counter fraud risk assessment has been updated to reflect fraud risks currently facing the council.

#### Background

- 2 In 2017/18 fraud continues to be seen as a significant risk to the UK public sector. The National Audit Office as part of its annual central government review<sup>1</sup> noted the importance of detecting and preventing fraud within the public sector as a duty to the tax payer as well as presenting an opportunity to produce significant savings. While written for central government the reports conclusions are equally applicable to local authorities. In 2017 it was estimated that the UK public sector loses £40.4 billion annually due to fraud.<sup>2</sup>

#### Recent Guidance and Developments

- 3 Cifa recently released the results from their latest annual local government fraud survey (the Counter Fraud and Corruption Tracker - CFaCT). The CFaCT report, included in Annex 1, highlights council tax as the biggest area of fraud detected by local authorities by volume (76% of cases) - for example single person discounts and CTRS fraud. It also highlights housing fraud as the largest area of loss amongst councils who own housing stock. While there continues to be a need to focus counter fraud resources in these areas, the report also highlights growing levels

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<sup>1</sup> Fraud Landscape Review, 2016

<sup>2</sup> Annual Fraud Indicator 2017, Identifying the cost of fraud to the UK economy, Crowe Clark Whitehill, University of Portsmouth, Experian.

of detected fraud in other areas. For example there were 197 identified occurrences of procurement fraud reported during the 2017 survey with a value of £6.2m. This echoes a report by the Home Office<sup>3</sup> in 2016 which highlighted procurement fraud as an area for focus. The findings pointed towards serious and organised crime involvement in local government procurement processes with particular emphasis on waste, taxi and transport services.

- 4 Recent years have also seen a rise in cyber attacks on the public sector - recent high profile examples include WannaCry, which affected the NHS and Parliament (WannaCry is a form of ransomware that encrypts system data and demands payment to unlock it). Attacks on local government can result in an inability to provide key services as well as the theft of sensitive data. The National Cyber Security Centre (NCSC) was established in 2016 to provide guidance and expertise in this area. As part of its response to the cyber attacks experienced in May 2017 the NCSC is promoting its CyberAware campaign to help avoid these types of attacks. The campaign encourages organisations to adopt good cyber security habits such as ensuring that operating systems and software are regularly updated.
- 5 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations (MLR 2017) came into force in June 2017. The new regulations put greater responsibility on organisations to mitigate the risks associated with money laundering by ensuring appropriate policies and risk assessments are in place. While not specifically covered by the regulations, local authorities have a broad responsibility to be aware of the potential for money laundering and criminality in their management of public funds. New standards of due diligence in the regulations to verify the true beneficiaries of financial transactions should therefore be considered. For example in right to buy or other high risk transactions.

### **Counter Fraud Framework Review**

- 6 The council's Counter Fraud and Corruption Strategy 2017-19 was approved by in February 2017. The strategy takes into account the national collaborative counter fraud strategy for local government in the UK (Fighting Fraud & Corruption Locally). It also takes into account the principles set out in Cipfa's Code of Practice on Managing the Risks of Fraud and Corruption (2014). No changes

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<sup>3</sup> Home Office – Organised Crime Procurement Pilots 2016

are required to the main body of the strategy, however the associated action plan, in Annex 2, has been updated to indicate progress on tasks as well as new objectives for 2017/18 and 2018/19.

- 7 It is recognised good practice for councils to assess their risk of fraud on a regular basis. A counter fraud risk assessment was first produced for the council in 2012 and is updated annually. The risk assessment included in restricted Annex 3 is the latest update of that document. A number of specific actions are included in the risk assessment. These include work to be undertaken by both the internal audit and the counter fraud teams as part of their 2017/18 and 2018/19 plan of work for the council.
- 8 As part of this review the council's Counter Fraud Policy has also been reviewed but no changes are required.

### **Consultation**

- 9 Not relevant for the purpose of the report.

### **Options**

- 10 Not relevant for the purpose of the report.

### **Analysis**

- 11 Not relevant for the purpose of the report.

### **Council Plan**

- 12 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**

- 13 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**

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

**Recommendations**

- 15 Members are asked to;
- comment on the updated Counter Fraud and Corruption Strategy Action Plan in Annex 2

Reason

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

- comment on the updated 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.*

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**Report  
Approved**

**Date** 25 January  
2018

**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 – CIPFA Fraud and Corruption Tracker 2017

Annex 2 – Counter Fraud and Corruption Strategy Action Plan

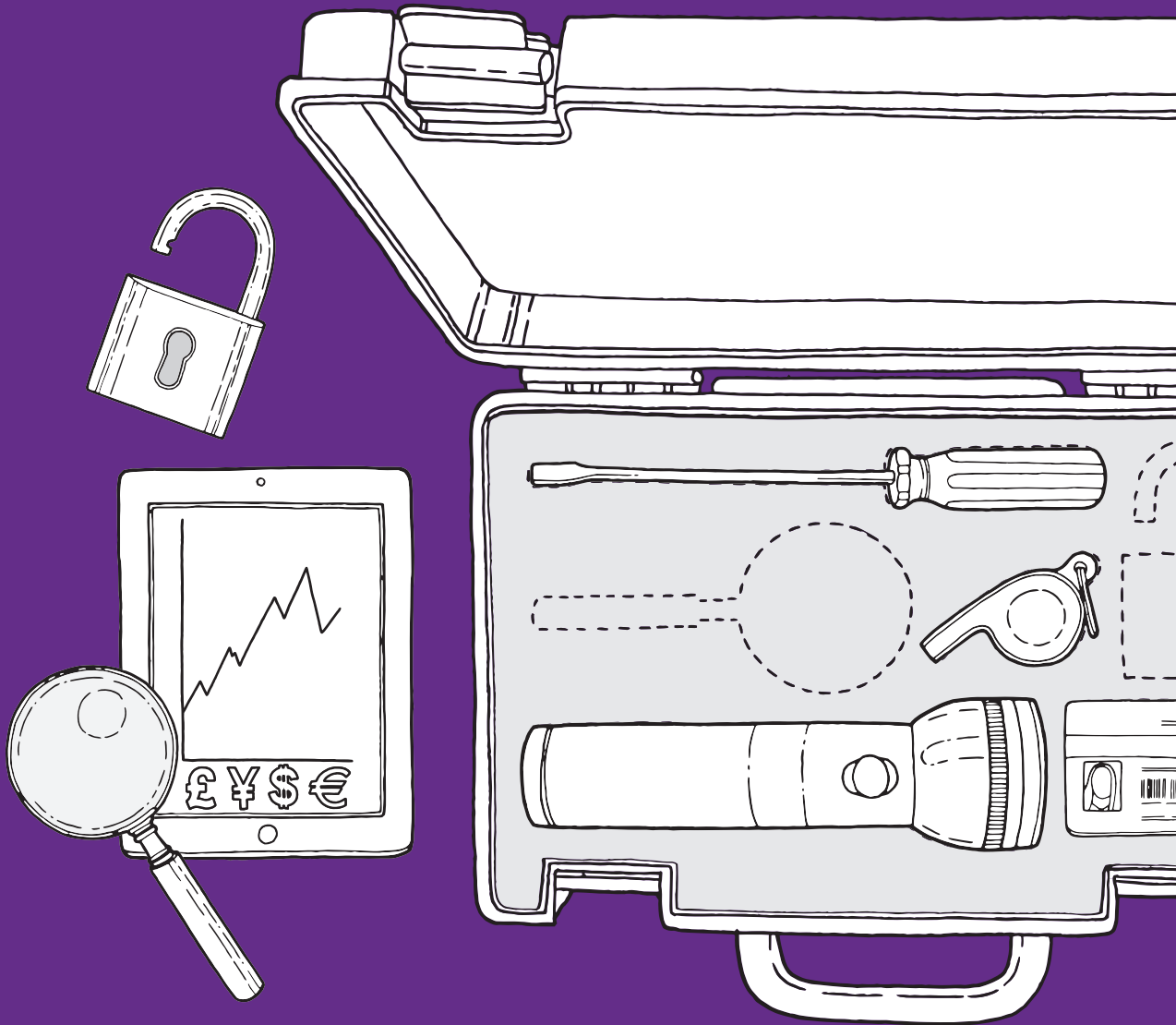
Exempt Annex 3 - Counter Fraud Risk Assessment

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# fraud and corruption tracker

Summary Report 2017



**CIPFA COUNTER  
FRAUD CENTRE**

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## Foreword

Public sector organisations around the UK are clearly committed to fighting fraud and corruption. Through the implementation of initiatives and collaboration with new partners, the public sector understands the importance of counter fraud activity and the contribution it makes to organisations' resilience. The success of counter fraud activities is more than about saving money but covers both the reputational and moral risk for an organisation.

The CIPFA Fraud and Corruption Tracker (CFaCT) survey is part of that story and provides a picture of fraudulent activity in local government and identifies actions that are being taken to combat it.

Supported by organisations such as the National Audit Office (NAO), the National Crime Agency (NCA) and the Local Government Association (LGA), CIPFA draws on the expertise of those within the profession to deliver this annual survey which enables practitioners to focus on trends and emerging risks.

Understanding emerging risks allows authorities to develop appropriate strategies and deploy adequate resources to support the fight against fraud and corruption. This year's survey has shown that adult social care fraud has evolved from an emerging risk to one with which many local authorities are now actively engaged.

This report, which summarises the findings of the most recent CFaCT, not only raises awareness of fraud prevention, detection and deterrence across local government, but will also enable organisations from across the wider public sector to benchmark their responsiveness against others facing similar risks.

This report will:

- help organisations understand where fraud losses could be occurring
- provide a guide to the value of detected and prevented fraud loss
- help senior leaders understand the value of counter fraud activity
- assist operational staff to develop pro-active counter fraud plans.

The survey was supported by:



## The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC), launched in July 2014, was created to fill the gap in the UK counter fraud arena following the closure of the National Fraud Authority (NFA) and the Audit Commission, and the subsequent transfer of benefit investigations to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions (DWP). The CCFC leads and co-ordinates the fight against fraud and corruption across public services by providing a one-stop-shop for thought leadership, counter fraud tools, resources and training.



## Introduction

CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the [Annual Fraud Indicator 2013](#), which provides the last set of government sanctioned estimates, fraud costs the public sector at least £20.6bn annually and of this total, £2.1bn is specifically in local government.

Fraud continues to pose a major financial threat to local authorities and working with partners such as the LGA and the Home Office, we are seeing an emerging picture of resilience and innovation within a sector that is aware of the difficulties it faces and is finding solutions to the challenges.

The third CFaCT was carried out in May 2017 and provides a national picture of fraud, bribery and corruption in local government. It also shows how the sector is dealing with the challenges and helps identify the actions that the sector needs to take to reduce the threat posed by fraudulent activity.

The CFaCT draws on the experience of practitioners and the support and expertise of key stakeholders to show the changing shape of the fraud landscape. It received a spread of results from across all regions and local authorities, enabling us to estimate the total figures for fraud across English, Welsh and Scottish local authorities.

### Response Rate

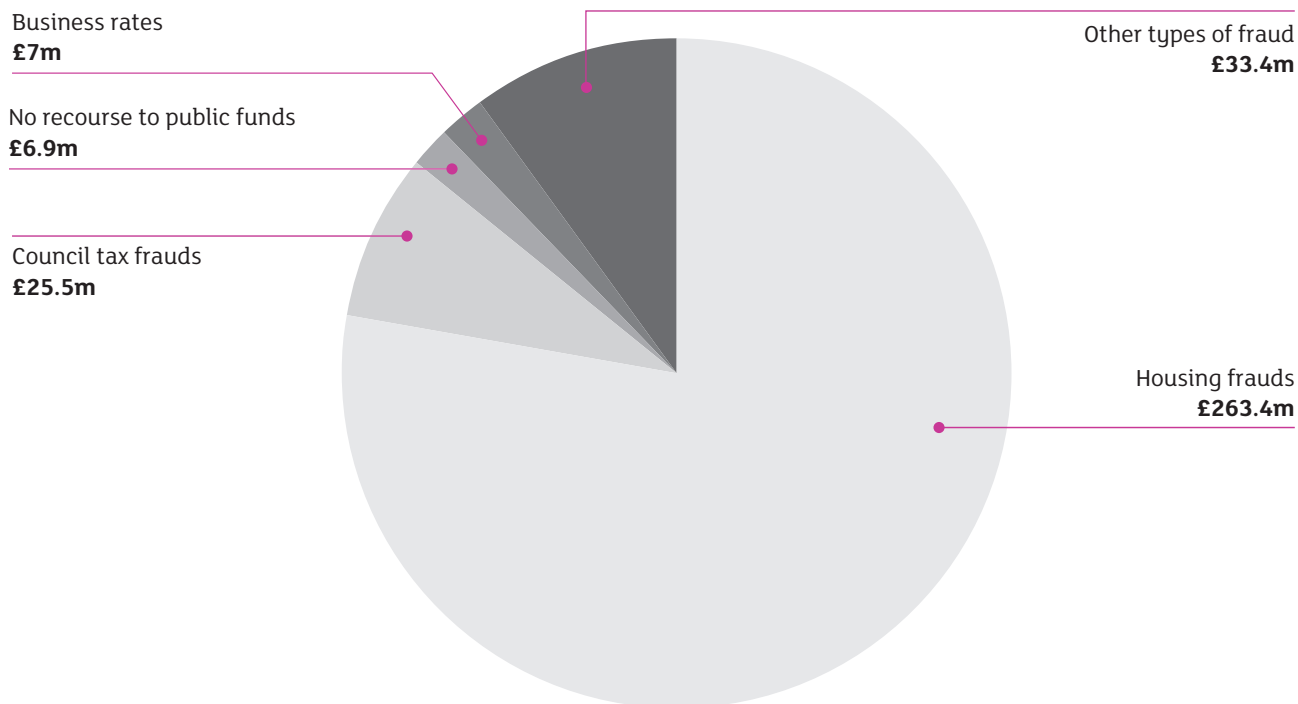


CIPFA estimates that across local authorities more than 75,000 frauds have been detected or prevented in 2016/17 with a total value of £336.2m. The number of fraud cases investigated or prevented dropped in 2017, but the average value per fraud increased from £3,400 to £4,500; the reason for this could be that local authorities are focusing on cases with a higher financial value.

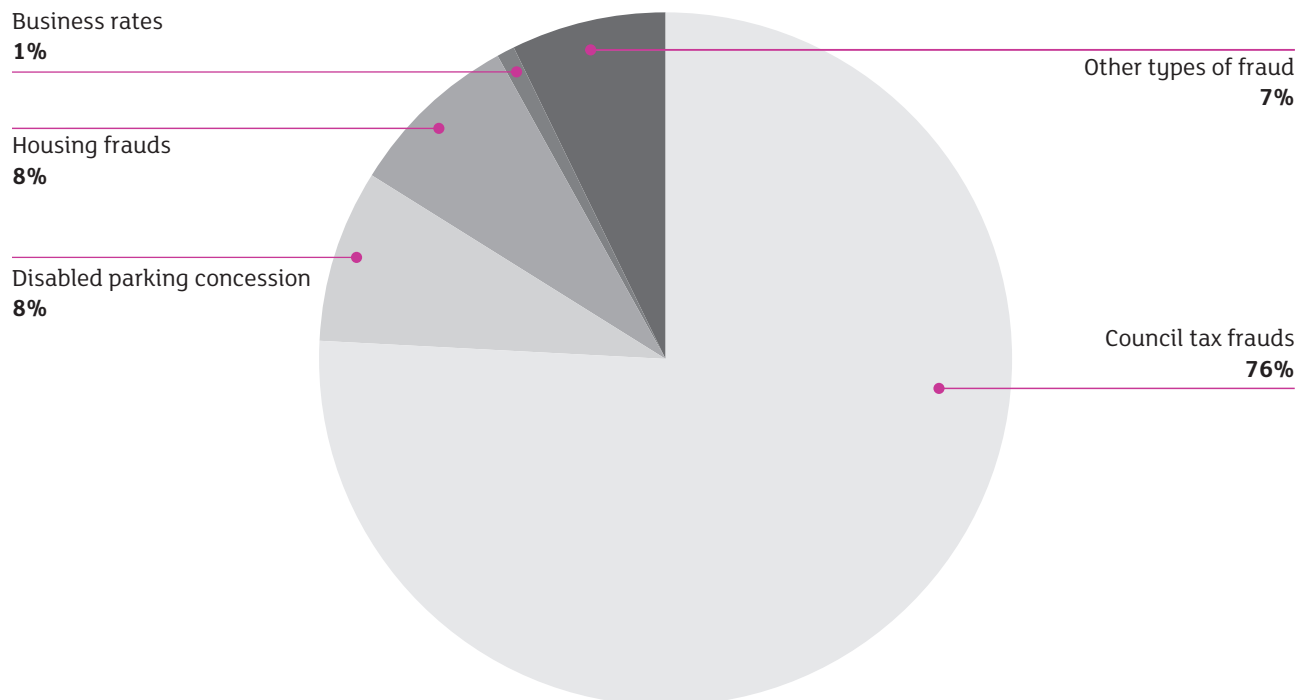
The CFaCT also revealed the following:

- procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas
- adult social care fraud has shown the largest growth in the past year, with an estimated £5.6m investigated compared with £3.0m in 2016
- the highest number of investigations related to council tax fraud (76%) with a value of £25.5m
- the highest value area of fraud is housing with an estimated total of £263.4m
- 38% of organisations who responded have a dedicated counter fraud service.

**Estimated value of fraud detected**



**Detected fraud by estimated volume**



Cyber crime has a high profile in the media and poses a growing challenge to a sector becoming more digital in terms of service delivery. The threat calls on the shared expertise of fraud and IT teams and it is often unclear who holds responsibility. Respondents to the CFaCT 2017 reported that only three fraud teams (2.3%) were responsible for cyber risk, whereas 106 (80%) reported that IT or the chief information officer held responsibility.

When we started the survey in 2014, three quarters of respondents told us that cyber risk was not included in the corporate plan. This year we see that over half the respondents had carried out a cyber risk assessment in the previous 12 months.

A number of themes and challenges have emerged over the three years that CIPFA has carried out this survey, and these include the following:

- housing has the highest value of all fraud types
- council tax fraud has seen the highest volume of cases
- local authorities benefit from looking forward, preparing for and understanding emerging risks in order to find effective solutions

- barriers to effective data sharing have consistently been stated as impacting on fraud prevention and investigation
- insufficient capacity and a lack of effective fraud risk assessment have proved to be challenges.

In the past three years fraud teams have operated within increasingly restricted budgets while the frauds they look to uncover become more sophisticated. From the figures and responses in the report, fraud teams are responding with positivity and a professional commitment to these challenges. The CFaCT shows that the sector is focusing on certain fraud areas, combining skills and resources and developing shared services.

This report highlights:

- the types of fraud as identified in the CFaCT 2017
- how the fraud and corruption landscape is changing
- what monetary value is lost through fraudulent activity
- how counter fraud activity and prevention improves the public sector budget
- what threats and risks are emerging
- what is being done to prevent fraud.

## Recommendations

CIPFA recommends that organisations:

- ensure that cyber security is integral to any new strategy or policy decision, reflecting the [National Cyber Security Strategy 2016 to 2021](#)
- continue to be vigilant and raise awareness of fraud within adult social care
- have a strong counter fraud leadership that understands the importance of involving counter fraud practitioners when devising policy and strategy
- continue to maximise opportunities to share data and to explore innovative use of data within the law
- communicate clearly both internally and externally the role of the fraud team and the importance of the role for both financial and reputational benefit.



## Main Types of Fraud

CIPFA has identified the main types of fraud based on the volume of investigations or the value of the financial loss. According to the survey results there are four main areas:

1. council tax
2. housing
3. disabled parking (Blue Badge)
4. adult social care.

### Council tax

Council tax fraud has always been the largest reported issue and this is the same in 2017. Council tax is levied on domestic properties and collected by district and unitary authorities in England and Wales and levying authorities in Scotland. As the revenue forms part of the income for local authorities, there is a clear correlation between council tax fraud and a reduction in the available budget.

Council tax fraud is split into three areas:

1. council tax single person discount (SPD) – eg where the council tax payer falsely claims to be an eligible single occupier
2. council tax reduction (CTR) support – eg where the council tax payer falsifies household income to qualify for support
3. other types of council tax fraud – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

Traditionally an area of high volume/low value, council tax represents the highest number of fraud cases reported by local authorities (76%). However, the total value of the fraud, estimated at £25.5m, only accounts for 7.6% of the estimated value of all detected fraud.

#### Estimated council tax fraud

	Volume	Value
SPD	50,136	£19.5m
CTR	6,326	£4.8m
Other	674	£1.1m
<b>Total</b>	<b>57,136</b>	<b>£25.5m</b>

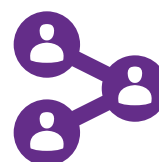
When asked about the perceived highest fraud risk areas, SPD was third behind procurement and adult social care.

### Perceived highest risk areas



**3**

Single person discount



**2**

Procurement



**1**

Adult social care

## Housing and tenancy fraud

Housing and tenancy fraud takes a number of forms including:

- illegal subletting for profit
- providing false information to gain a tenancy
- wrongful tenancy assignment and succession
- failing to use the property as the principal home
- right to buy fraud, for example where circumstances have been misrepresented to qualify for a discount.

Housing is expensive in many parts of the country, the South East in particular, and therefore a low number of cases produces a high value in terms of fraud. However, councils record the income lost to housing fraud according to different values, ranging from a notional cost of replacing a property to the average cost for keeping a family in bed and breakfast accommodation for a year. The National Fraud Initiative (NFI) has historically used a figure of £18,000 to reflect the cost of homeless accommodation over one year, however, this year the NFI has increased that notional figure to £93,000.

The lack of a standard approach makes valuing housing fraud difficult and the approaches vary not only between regions but also between councils. To give some idea of the growth in this area this report has taken the cases reported over the last two years and estimated a figure for all local authorities. Using this methodology, the estimated total value of housing fraud is £263.4m. The number of cases of right to buy fraud has fallen since the 2016 survey but the value has risen to £112m.

Right to buy is the scheme that allows tenants who have lived in their properties for a qualifying period the right to purchase the property at a discount. As housing has become increasingly expensive, especially in London, the value of this type of fraud has seen a rapid increase. The loss is higher in London than in other parts of the country, with an average value per case of £97,000 against £81,000 for the rest of the UK.

### Estimated housing fraud

Type of fraud	Volume	Value
Right to buy	1,284	£111.6m
Illegal subletting	1,829	£78.5m
Other*	2,825	£73.3m
<b>Total</b>	<b>5,938</b>	<b>£263.4m</b>

\*Other includes tenancy frauds that are neither right to buy nor illegal subletting, and may include succession fraud and false applications.

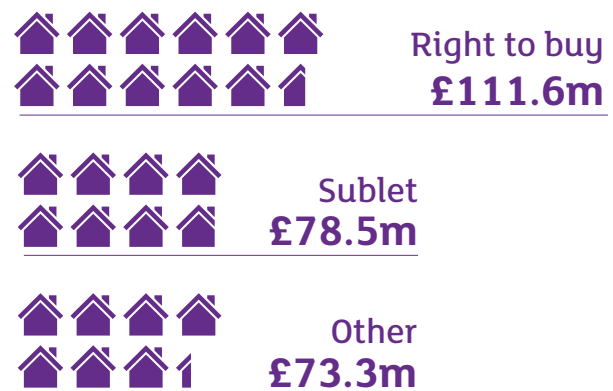
# 1,284

the estimated number of right to buy cases investigated or prevented during 2016/17

# £263.4m

the estimated total value of housing fraud investigated during 2016/17

### Estimated housing fraud



## Disabled parking (Blue Badge)

The Blue Badge is a Europe-wide permit scheme that gives parking concessions to people with sight impairments or severe walking difficulties. It is locally administered and allows permit holders to park nearer to their destination. Fraud from the misuse of the Blue Badge has decreased since we started the survey. In 2015/16 the estimated number of cases was 7,078, and in 2016/17 this decreased dramatically to 5,751.

There is no standard way to calculate the value of this type of fraud and some authorities, for example in London, place a higher value on the loss than others and invest in more counter fraud resource.

The cost of parking in London results in a higher value to case ratio. From the survey responses we estimate a total of 1,396 cases for London authorities with a total loss value of £3.0m, whereas the estimate for the rest of the

UK is 4,355 cases with a total value less than half that of London at £1.4m.

In the event that Blue Badge misuse is identified, it is often prosecuted and the individual is fined (which is paid to the court). Costs are awarded to the prosecuting authority but these may not meet the full cost of the investigation and prosecution. It is possible that because costs may not be fully redeemed, authorities have little incentive to focus attention on this fraud type. Prosecution, where successful, may serve as a warning and a reflection of public interest.

### Estimated Blue Badge fraud

Volume	Value
5,751	£4.3m

### Blue Badge prosecution

After an investigation by Warrington Borough Council's counter fraud team, the council prosecuted a resident for using a Blue Badge which did not belong to him, and had in fact expired, to park in designated disabled parking spaces.

The court fined the man £69 in respect of four offences, charged him a victim surcharge of £30, £120 in penalty charge notices and ordered him to pay £100 in court costs.

This case illustrates that any money returned to the council would not be sufficient to cover the investigation and prosecution costs, but taking the case to court would serve to raise awareness and potentially deter others.

### Value of Blue Badge fraud in London v rest of UK



**£3m**  
London



**£1.4m**  
rest of the UK

## Adult social care

There has been a rise in the number of fraud cases identified in adult social care and the value of the loss has started to increase. This is a trend that we have seen emerging over the last few surveys. In 2015/16 the average value of loss specifically for adult social care was below £10,000 but in 2016/17 we see a rise in value to around £13,000.

Adult social care fraud can happen in a number of ways but the increase in personal budgets gives a greater opportunity for misuse.

Investigations cover cases where:

- direct payments were not being used to pay for the care of the vulnerable adult
- care workers were claiming money for time they had not worked or were spending the allocated budget inappropriately.

Over the past few years many local authorities have funded training and introduced robust controls to mitigate the risk of fraud within personal budgets.

This year's survey also highlighted the links between adult social care fraud and insider fraud. Five percent of adult social care frauds investigated by respondents involved an authority employee.

### Estimated adult social care fraud

Type of fraud	Volume	Value
Adult social care personal budget	264	£2.8m
Adult social care (other)*	182	£2.8m
<b>Total</b>	<b>446</b>	<b>£5.6m</b>

\*Other includes internal fraud or identity fraud.

### Fraud by abuse of position

The counter fraud team at Essex County Council was contacted by a social worker who, after conducting a routine monitoring review, considered that the service user (Ms B) may be paying a relative living at the same address to provide support for her care needs. This had not been agreed by the service area, and was contrary to council policy on employment of personal assistants.

The team identified that Ms B, who was also a social worker employed by the council, had not been paying a carer for many years. Ms B had been receiving direct payments to cover care needs since 2002 and had submitted quarterly returns to evidence spend but this had stopped in 2007, despite being chased. At interview, Ms B advised that she had not spent the direct payment since 2007 but would not provide bank statements to evidence this. Payments from Essex County Council from April 2007 to the date of the suspension amounted to nearly £47,000.

Ms B had just sold her house and was in the process of buying another property. A cheque was returned to the council for £46,887.90.

Ms B was dismissed from the council following disciplinary procedures and the case was referred to the Health Care and Professions Council (HCPC). An HCPC hearing resulted in a caution being placed on her registration for three years.

The case was also referred to Essex Police, who confirmed that Ms B had regularly used the direct payment as her personal monies. As a result Ms B was charged with theft of £46,887.90 and pleaded guilty to the charge. She received a suspended 16 month sentence, costs of £340 and a six month curfew.

## Other Types of Fraud

Fraud covers a substantial number of areas and within organisations these vary in importance. This part of the report looks at the responses to some of these that did not appear as major types of fraud within the national picture but are important to individual organisations. Our results looked at the following fraud types in this category:

- business rates
- insurance
- procurement
- welfare assistance and no recourse to public funds
- payroll, expenses, recruitment and pensions
- economic and voluntary sector (grant fraud)
- manipulation of data (financial or non-financial) and mandate fraud.

### Business rates

Business rates have received considerable publicity and are a key cost for those who have to pay the tax. There is also the political sensitivity felt by politicians wanting to maximise an environment for economic growth and business development.

Business rate fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to differentiate between evasion and avoidance. Business rate fraud can include the falsification of circumstances to gain exemptions and discounts.

Business rates represented 0.5% of the total number of frauds reported in 2015/16 and had risen to 0.9% in 2016/17. The estimated total value of the fraud loss has increased from £4.8m in 2015/16 to £7.0m in 2016/17.

#### Estimated business rate fraud

Volume	Value
662	£7.0m

### Insurance fraud

This fraud includes any false insurance claim made against an organisation or an organisation's insurers. Within the insurance fraud category, there were six cases of organised crime.

Authorities should ensure that counter fraud measures within their own insurance claims processes are fit for purpose and that there is a clear route for investigation into alleged frauds.

The total estimated value of loss in 2016/17 is £5.1m – a decrease from £7.0m in 2015/16. The number of frauds detected or prevented fell but the average value increased to £13,800.

Considerable work has been done in the area of insurance fraud and insurance companies are working with organisations to develop new ways to identify fraud and abuse within the system.

#### Estimated insurance claim fraud

Volume	Value
371	£5.1m

## Procurement fraud

Procurement fraud can occur throughout the procurement cycle, from purchasing through to the service delivered and payments. In last year's survey procurement was perceived as one of the greatest fraud risks, with housing procurement being of particular concern. The number of procurement fraud cases reported in 2015/16 was five times more than in 2014/15.

In 2016/17 there were an estimated 197 prevented or detected frauds with an estimated value of £6.2m, compared with 427 cases in 2015/16 with a total value of £5.7m; this drop in the number of cases but increase in value could indicate that higher level frauds are being discovered. However, procurement fraud takes place in a constantly changing environment and can occur anywhere throughout the procurement cycle. There can be sizeable difficulties in measuring the value of procurement fraud since it is seldom the total value of the contract but an element of the contract involved. The value of the loss, especially post award, can be as hard to measure but equally significant.

Estimates suggest that nearly 40% of all fraud committed against local authorities concerns abuse of the procurement cycle.<sup>1</sup> The London Borough of Hackney's innovative approach to this problem was to create a multifaceted and specialist procurement team within the audit and anti-fraud division. This has allowed the authority to carry out complex and often lengthy investigations which have resulted in cost savings as well as greater assurance across the organisation.

The [Fighting Fraud and Corruption Locally Strategy 2016–2019](#) recommends that organisations create a procurement fraud map and define the stages at which procurement fraud can happen in a local authority. This would highlight low, medium and high potential risks and inform risk awareness training for the future.

The Competition and Markets Authority (CMA) is working with the public sector to identify areas of higher risk within procurement. The CMA has produced a free online tool that studies the data fed in against bidder behaviour and price patterns. It then flags areas where fraud **could** be a possibility and should be investigated.

## No recourse to public funds



## Estimated procurement fraud

Volume	Value
197	£6.2m

For more information see also [Managing the Risk of Procurement Fraud](#) (CIPFA/LGA, 2015).

## Welfare assistance and no recourse to public funds

Local welfare assistance was set up to help the poorest residents to deal with short-term costs caused by fire, flood or injury. The assistance is not a statutory duty and with money being limited many authorities have cut the service dramatically or dropped it completely. Awards are discretionary and may come as either a crisis payment or some form of support payment.

In 2016, the estimated number of cases was 610 but this has declined in the past year to an estimated 103.

While 'no recourse to public funds' fraud presents a significant fraud risk to local authorities, it is primarily to be found in London, southeast England and larger metropolitan boroughs. London had 90% of reported cases in this year's survey. This type of fraud includes claimants using false documents to obtain benefits.

Over the past 12 months the number of cases in this area has increased, rising from 255 in 2015/16 to 342 in 2016/17. However, the average value of the fraud has fallen to £20,000, resulting in an overall decrease in total loss from £8.2m to £6.9m.

## Estimated fraud in welfare assistance and no recourse to public funds

Type of fraud	Volume	Value
Welfare assistance	103	£0.3m
No recourse to public funds	342	£6.9m

<sup>1</sup> [www.local.gov.uk/sites/default/files/documents/managing-risk-procurement-13a.pdf](http://www.local.gov.uk/sites/default/files/documents/managing-risk-procurement-13a.pdf)

## Economic and voluntary sector (grant fraud)

This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation. As funds become more limited for this type of support it is even more important for fraud teams to be aware of the risks within this area.

Although only 17 actual cases of grant fraud were reported in the 2017 survey, the average value of loss was £39,000 per fraud.

## Payroll, expenses, recruitment and pensions

If we combine all the estimated results for these four areas the total value of the fraud loss is an estimated £2.1m.

It can be very difficult, however, to measure the cost of these frauds because the implications for some do not necessarily carry a monetary value, such as reputational damage or investigating the motives behind the fraud. As a result some organisations can be less keen to investigate or report investigations in these areas.

Employees and those working inside an authority can abuse council processes for financial gain. Respondents reported that 40% of payroll fraud cases investigated or prevented during the year involved insider fraud.

Recruitment fraud is an interesting area and often one where it is difficult to establish a value of fraud loss. It would be impossible to put a price on the damage that could be inflicted on an organisation if it were to employ a member of staff who had falsified their qualifications. Without a strong risk assessment and additional investigation, an appointment may be made that would have considerable adverse implications.

# 40%

of payroll cases involved insider fraud

## Estimated payroll, expenses, recruitment and pension fraud

Type of fraud	Volume	Value
Payroll	248	£1.0m
Expenses	75	£0.1m
Recruitment	46	£0.2m
Pension	228	£0.8m
<b>Total</b>	<b>597</b>	<b>£2.1m</b>

## Manipulation of data (financial or non-financial) and mandate fraud

The fraud most commonly carried out within the manipulation of data category relates to employees changing data in order to show a better performance than actually occurred or staff taking data from the organisation.

[Action Fraud](#) states that:

*Mandate fraud is when someone gets you to change a direct debit, standing order or bank transfer mandate, by purporting to be an organisation you make regular payments to, for example a subscription or membership organisation or your business supplier.*

CIPFA estimates that across the UK manipulation of data fraud has more than doubled from 24 in 2015/16 to 57 in 2016/17. Mandate fraud has also increased from 188 in 2015/16 to 325 in 2016/17.

Procedures must be in place to ensure that staff are aware of this type of fraud and act accordingly by checking information. Advice from organisations such as Action Fraud can help to ensure that the risk is reduced, but from the results of our survey organisations are clearly still experiencing loss. Removing data may not result in financial loss but can result in reputational damage. Mandate fraud may also not be reported because of reputational repercussions.

# 90%

the percentage of respondents who have a counter fraud plan in place

## Serious and organised crime

This year's survey again included a question (requested by the Home Office) on serious and organised crime in order to help establish how it is being tackled by local authorities.

Organised crime groups are often involved in complicated and large-scale fraudulent activities which cross more than one boundary. Such activities demand considerable resources to investigate and require organisations to co-operate in order to successfully bring criminals to justice.

The CFACT 2017 identified 26 cases of serious and organised crime, and the responses indicate that organisations share a great deal of data both internally and externally. In addition, of the organisations that responded, 23% identified serious and organised crime risks within their organisation's risk register.

# 91%

the percentage of respondents who share data externally

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## Whistleblowing

Whistleblowing was strongly evidenced again this year, with 60% of organisations surveyed saying that they annually reviewed their whistleblowing arrangements in line with the [PAS 1998:2008 Whistleblowing Arrangements Code of Practice](#).

Of those questioned 85% confirmed that staff and the public had access to a helpdesk and 72% said that the helpline conformed to the PAS 1998:2008.

Respondents reported a total of 686 whistleblowing cases, made in line with PAS 1998:2008. This represents disclosures in all areas, not just with regard to suspected fraudulent behaviours. Effective whistleblowing allows

staff or the public to raise concerns about a criminal offence, miscarriage of justice or dangers to health and safety in a structured and defined way. It can enable teams to uncover significant frauds that may otherwise have gone undiscovered. Organisations should therefore ensure that whistleblowing processes are reviewed regularly.



## Counter Fraud Resources

Increased delivery with reduced resources is the context in which fraud teams are operating. It is therefore unsurprising that the proportion using a shared service has increased from 10% to 14%. This approach has gained popularity in some areas as a method of allowing smaller organisations to provide a service that is both resilient and cost effective.

For those organisations that are not opting to run shared services, the CFaCT 2017 showed a flatlining of counter fraud staff resources until 2019. This position would appear to be a change of intention from 2015, when some respondents had hoped to increase their staff numbers. We did however see a slight increase in the number of organisations which have qualified financial investigators available in-house, from 27% in 2016 to 34% in 2017, but fraud services continue to be stretched.

While it is not essential for all organisations to have a dedicated counter fraud function, CIPFA continues to reinforce the importance of organisations having a fraud response plan that enables allegations of fraud to be investigated effectively by skilled and professional investigators.

### Hertfordshire shared counter fraud service

In 2015, six councils in Hertfordshire, including the county council, established a shared service to improve the prevention of fraud and corruption. At the centre of the plan was the requirement to have a more robust and resilient service where data was exchanged and best practice shared. The commercial nature of the service also required a return on investment and the opportunity to create new income streams.

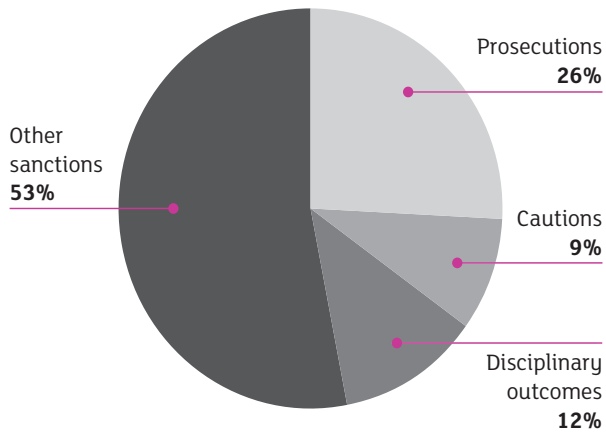
The combined service has provided flexibility and a significant return on investment for those involved, and the reduction in duplication across common policy approaches has resulted in a more efficient use of resources.

## Sanctions

The CFaCT 2017 allows us to explore the sanctions being used and indicates the following:

- 614 prosecutions were completed in 2016/17, and of the prosecutions, 22 involved insider fraud – all 22 cases were found guilty
- there was an average of four prosecutions per survey respondent
- the share of other sanctions used increased from 45% to 53% from 2016 to 2017
- the share of cautions as a proportion of all sanctions dropped from 22% to 9% between 2016 and 2017.

### Outcome of sanctions



The chart indicates that:

- prosecutions include both in-house and CPS prosecutions
- cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to do so in that instance
- disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team disciplinary action is undertaken, or where a subject resigns during the disciplinary process
- other sanctions include the imposition of fines or other penalties by the organisation.

## Fighting Fraud and Corruption Locally

The [Fighting Fraud and Corruption Locally Strategy 2016–2019](#) (FFCL) was developed by local authorities and counter fraud experts and is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.

The strategy is available for councils to use freely so that everyone can benefit from shared good practice. It provides advice on how to lead and communicate counter fraud and corruption activity for the greatest impact as well as covering resource management and investment in counter fraud operations.

As in previous surveys, the FFCL Board put forward specific statements to be included to help measure the effectiveness of the initiatives in the strategy and the responses are reflected in the diagram below. The more confident respondents are about the way fraud is dealt with in their organisation the higher they marked the statement, low scores are at the centre of the diagram.

### Counter fraud controls by country



Over the past three years, local authorities have identified capacity, data sharing and fraud risk management as issues that need to be addressed in order to effectively tackle fraud and corruption. The FFCL's 34-point checklist is a good starting point as it provides a comprehensive framework to address these concerns.

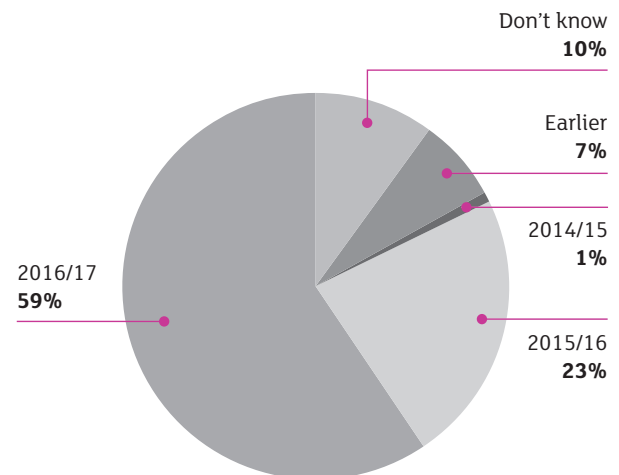
The FFCL Strategy recommends that:

*There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.*

By producing a plan and having resources that are agreed by the leadership team, management is able to see gaps in capacity and identify areas of risk which enables them to make effective strategic decisions.

In fact, an area of improvement has been the rise in organisations that have a counter fraud and corruption plan. Last year, 11% did not have a plan or did not know if they had one, and only 62% had the plan approved in the last 12 months. Of those who responded to this year's survey, 90% have a counter fraud and corruption plan in place (10% did not know) and 74% had carried out a corporate fraud assessment in the last 12 months. Some respondents reported that an assessment was pending.

### When did you last have your counter fraud and corruption plan approved?



## Acknowledgements

CIPFA would like to thank all the organisations that completed the survey along with those that helped by distributing the survey or contributing case studies, including:

- Association of Local Authority Treasurers
- FFCL board
- Gary Coote, London Borough of Hillingdon
- Home Office
- Kate Bridge, Competition and Markets Authority
- Luan Quirke, Wirral Council
- Local Government Association
- Nick Jennings, Hertfordshire County Council
- Patrick Saunders-Wright, London Borough of Hackney
- Peter Tanton, Essex County Council
- Public Concern at Work
- Solace

## Appendix 1: Estimates and Fraud Types

The table below shows the types of fraud reported in the survey, the estimated number of cases reported during 2016/17 and an estimate of the total value of these fraud cases. The methodology used in the estimation is described in Appendix 2.

Types of fraud	Fraud cases	Value	Average
Council tax	57,136	£25.5m	£400
Housing	5,939	£263.4m	£44,300
Disabled parking concession (Blue Badge)	5,751	£4.3m	£800
Business rates	662	£7.0m	£10,600
Adult social care	446	£5.6m	£12,500
Insurance claims	371	£5.1m	£13,800
No recourse to public funds	342	£6.9m	£20,200
Mandate	325	£1.7m	£5,200
Schools (excluding transport)	258	£0.5m	£2,000
Payroll	248	£1.0m	£4,100
Pensions	228	£0.8m	£3,400
Procurement	197	£6.2m	£31,300
Debt	142	£0.3m	£2,400
Welfare assistance	103	£0.3m	£3,000
Expenses	75	£0.1m	£1,900
Children's social care	59	£0.8m	£13,800
Manipulation of data	57	na	na
Recruitment	46	£0.2m	£3,700
Economic and voluntary sector support	39	£1.5m	£38,800
School transport	19	£0.2m	£12,300
Investments	0	£0.0m	na
Other	2,768	£4.7m	£1,700
<b>Total</b>	<b>75,212</b>	<b>£336.2m</b>	<b>£4,500</b>

## Appendix 2: Research Methodology

This year's CFaCT results are based on responses from 133 English, Welsh and Scottish local authorities. With this response rate, we are able to calculate an estimated total volume and value of fraud for all local authorities in England, Wales and Scotland.

For all non-responding authorities, missing values are calculated according to the size of the authority. For each type of fraud, an appropriate measure of authority size applicable to that authority has been selected. For example, local authority housing stock is used as the basis for the estimation of housing frauds. From the responses, the number of cases per unit of the size measure is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value.

As an illustration, if the number of housing frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000, then the total estimated value of fraud for that authority is £1.0m. The figures that are presented in this report are estimated according to this methodology. The 2015/16 estimates have also been restated for the purpose of comparison.



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## Annex 2: Counter Fraud and Corruption Strategy Action Plan

Ref	Action Required	Original Target Date	Responsibility	Update	Revised Target date
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	A new Counter Fraud Strategy was approved by in February 2017.  To be reviewed annually. The current report reflects the first annual review in February 2018.	Annual Review
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	An updated policy was approved in February 2017.  The policy has been reviewed in February 2018 - no updates are required at this time.	Annual Review
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	A risk assessment is presented annually to the Audit and Governance Committee (see Annex 3 for February 2018 update).	Annual Review

Ref	Action Required	Original Target Date	Responsibility	Update	Revised Target date
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	See Ref 8 below.	Ongoing
5	Review and update whistleblowing policy and procedures.	May 2017	Veritau / HR / Monitoring Officer	Work has begun on a new policy and procedures. The new policy should be in place during 2018/19.	March 2019
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	Discussions are scheduled with the council's risk management team to determine the best way to ensure that fraud risks are factored into service level registers.	Ongoing
7	Undertake specific fraud awareness training for priority service areas identified through the fraud risk assessment.	October 2017	Veritau	Fraud awareness sessions have been undertaken with a variety of council departments, including the Income Services Team, Customer Services team and Benefits Department. In	Ongoing

Ref	Action Required	Original Target Date	Responsibility	Update	Revised Target date
				addition specific risks have been flagged to staff through alert emails.	
8	<p>Develop regional / local data matching and counter fraud exercises (ii).</p> <p>Review outcomes from earlier exercise (see 4) and determine future target areas and timetable for local / regional data matching.</p>	October – December 2017	Veritau	<p>Cross boundary data matching with regional partners is underway. A match of Council Tax data has been completed and the results are being reviewed jointly with the council tax team. Further work is planned around council tax, parking permits, adult social care and business rates discounts.</p> <p>This is an ongoing project - periodic matching exercises will be undertaken on a rolling basis.</p>	Ongoing
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	Discussions have been held with colleagues from other councils and a review conducted to identify potential tools available on the market to estimate local fraud levels. No solutions have been found but we will continue to monitor this area.	N/A
10	Consider whether specific targets can be set under each of the Fighting Fraud Locally themes.	December 2017	Veritau	Fighting Fraud Locally 2016 recommended six themes to measure performance on. Actions already undertaken (and planned) cover all of the themes, although specific targets have not been set. The themes, and	N/A

Ref	Action Required	Original Target Date	Responsibility	Update	Revised Target date
				<p>examples of activity, are listed below.</p> <p><b>Culture</b> - The council has appropriate policies and strategy in place. Veritau promotes a counter fraud culture through newsletters and alerts as well as targeted fraud awareness.</p> <p><b>Capability / Competence</b> – All of Veritau Investigation Officers are Accredited Counter Fraud Specialists.</p> <p><b>Capacity</b> – The council has access to dedicated counter fraud resources (through Veritau).</p> <p><b>Communication</b> – Fraud issues are routinely communicated to members, managers and staff at the council. The Counter Fraud Team works with service departments in preventing and investigating fraud.</p> <p><b>Collaboration</b> – The council works collaboratively with a number of other local authorities, and other partners including the police and DWP.</p>	

Ref	Action Required	Original Target Date	Responsibility	Update	Revised Target date
11	Liaise with HR officers to incorporate general counter fraud awareness training into induction training for all new employees.	March 2018	Veritau / Head of HR	This project is ongoing. Veritau are currently in contact with software suppliers to help deliver an online fraud awareness solution.	March 2019
12	Review wider governance and other policies (eg employee related policies, gifts, interests, financial regulations) to ensure they: <ul style="list-style-type: none"> <li>cover all required areas</li> <li>are consistent with the counter fraud strategy and policy.</li> </ul>	March 2018	Veritau / relevant policy owners	Council policies are regularly reviewed in the course of Internal Audit work. Any inconsistencies or weaknesses in terms of fraud detection and prevention are flagged to the counter fraud team.	Ongoing
13	Launch and promote regional fraud hotline	N/A	Veritau	A new 0800 regional fraud hotline number has been introduced by Veritau. The hotline is already active. Further publicity is planned to promote the new number.	Ongoing
14	Raise awareness of cyber security issues and promote good practice.	N/A	Veritau	Working with the ICT department Veritau will make staff aware of guidance from the National Cyber Security Centre. This will include posters and email alerts.	Ongoing
15	Increase ability to detect procurement fraud.	N/A	Veritau	The counter fraud team will explore usage of the Competition and Markets Authority's cartel screening tool to detect potential fraud within council	March 2019

Ref	Action Required	Original Target Date	Responsibility	Update	Revised Target date
				procurement exercises.	

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

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## Agenda Item

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### **Audit and Governance Committee**

7 February 2018

Report of the Head of Internal Audit

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### **Internal Audit Plan Consultation**

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#### **Summary**

- 1 The purpose of the report is to seek members' views on the priorities for internal audit for 2018/19, 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.

#### **2018/19 Audit Plan**

- 3 The council continues to face budgetary pressures and the continued impact of austerity 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 2018/19 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 Internal Audit resources are limited and the audit plan is intended to ensure those resources are prioritised towards those systems which are considered to be the most risky and/or which contribute the most to the achievement of the council’s priorities and objectives.
- 5 Figure 1 below sets out a number of areas considered to be a priority for internal audit for 2018/19 as a result of our initial analysis and horizon scanning. Consultation meetings with senior officers are ongoing; therefore 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.
- 6 Members views are sought about whether:
- the approach to determining priorities for the 2018/19 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 2018/19*

<b>Area</b>	<b>Possible Work</b>
Corporate & cross-cutting	<ul style="list-style-type: none"> <li>• Overtime</li> <li>• Members’ Allowances</li> <li>• Health and Safety</li> <li>• Ethics</li> <li>• Procurement (including Supplier Resilience)</li> <li>• Risk Management, Disaster Response Plans, Health and Safety and Insurance arrangements post the Grenfell disaster</li> <li>• Workforce Planning</li> </ul>

Information Governance	<ul style="list-style-type: none"> <li>• Information security checks</li> <li>• Data Quality</li> <li>• GDPR readiness</li> </ul>
Main financial systems	<ul style="list-style-type: none"> <li>• Main Accounting System, Creditors, Debtors</li> <li>• Payroll</li> <li>• Council Tax / NNDR</li> <li>• Council Tax Support and Housing Benefits</li> <li>• VAT Accounting</li> <li>• Budgetary Control</li> </ul>
Project Management	<ul style="list-style-type: none"> <li>• Project Management framework</li> </ul>
Health, Housing and Adult Social Care	<ul style="list-style-type: none"> <li>• Better Care Fund</li> <li>• Public Health</li> <li>• Continuing Healthcare (including s117 of the Mental Health Act)</li> <li>• Right to Buy</li> <li>• Housing Rents</li> <li>• Housing Development / Planning</li> <li>• Housing Fraud</li> <li>• Adult Social Care Funding and Budget Management (including, for example delayed discharges, winter funding pressures, care management processes)</li> <li>• Care Quality (including Safeguarding)</li> </ul>
Economy and Place	<ul style="list-style-type: none"> <li>• Waste Services</li> <li>• Capital Projects</li> <li>• Contract Management</li> <li>• Clean Air Data</li> </ul>

Children, Education and Communities	<ul style="list-style-type: none"> <li>• Schools audits including themed audits</li> <li>• Free Early Education funding</li> <li>• Schools Funding</li> <li>• Children’s Social Care Funding and Budget Management</li> </ul>
ICT	<ul style="list-style-type: none"> <li>• ICT Asset Management</li> <li>• ICT Governance</li> <li>• Cyber Security</li> </ul>

### **Consultation**

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

### **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 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 appropriate officers and members are not consulted on the content of audit plans.

**Recommendations**

- 13 Members are asked to;
- Comment on the proposed approach to internal audit planning for 2018/19 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  
Telephone: 01904 551100

**Report Approved**  **Date** 25/1/2018

**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 & Governance Committee

7th February 2018

Report of the Assistant Director, Customer & Digital Services

## Health & Safety Audit Actions

### Summary

1. This report is the follow up to the updates received by this Committee on 19 July 2017 and 7 December 2016. The report was requested by the Committee as part of the consideration of outstanding audit actions.

### Recommendations

2. Members are asked to note/comment on the progress made in implementing outstanding audit actions.

### Background

3. Arising from an internal audit monitoring report presented on 28 September 2016:

*'Members expressed concern that a number of follow-up actions from the Health and Safety audit were still outstanding, several of which were priority two actions. Concerns were expressed that any failure to abide by the requirements of health and safety legislation could have severe consequences for the Council. Members sought assurances that the agreed actions were on target to be completed within the specified timescale and requested that a report on this be provided at the next meeting'.*

4. On 7 December 2016, members received a further update report and:

*'Officers gave an update on the progress that had been made in implementing the actions arising from the audit and stated that processes had been strengthened, including closer working with the*

*Property Services team. This was enabling a more co-ordinated approach to be taken. Details were also given of the new management structure and of the joint working arrangements with North Yorkshire County Council. Members were informed that the Executive Member for the Environment had received two assurance reports, which were available on the council's website. In February 2017 the Executive Member would be considering proposals in respect of shared services'.*

5. Members requested that a further update should be brought to the Committee in July 2017 and following this update:

*'Members recognised the progress being made and welcomed the move to a standardised approach to risk across the services, the need for definitive deadlines for key H&S issues was required. It was agreed that a further report which clearly set out, in tabular form, the key issues identified, measurable actions and progress, with specific completion deadlines would be brought back to the Committee at a date to be agreed.'*

## **Progress**

6. Work has continued to address the risks raised in the original Audit and Governance (A&G) Report with a number of the actions now complete particularly around the lone working actions. Where there have been difficulties e.g. due to limitations in technology or to allow additional consultation with the Trade Unions in fully completing, an action clear targets for completion have been allocated.
7. A copy of the updated action plan is attached with clear target dates at Annex A. This is identical to those agreed with Veritau as part of a current follow-up internal audit which will be reported at a future A&G Committee Meeting.
8. In addition to the ongoing work to address the required actions to mitigate the risks identified in the Veritau audit reports, regular health and safety (H&S) update reports are being provided to Corporate Management Team, Corporate Leadership Group and Executive Portfolio Holder for the Environment. The link to the latest Portfolio Holder report is below:

<http://modgov.york.gov.uk/ieListDocuments.aspx?CId=870&MId=10036&Ver=4>



9. Key H&S priorities for the council in the coming year include lone working and significant work is ongoing in this regard. In addition Fire Risk Management which was already a priority, has taken on far more significance following the Grenfell tragedy and a number of other significant fires over the last few months. In addition the council is reviewing its H&S arrangements in relation to construction projects to ensure the requirements of the Construction, Design and Management Regulations.
10. To support this strategic work departments are developing longer up to 3 year health and safety action plans. These include a mixture of inspection and audit of current systems to ensure they are suitable, but also involve improvement strategies to mitigate areas of H&S risk.

### **Consultation**

11. None necessary for this report.

### **Options**

12. There are no alternative options to noting/commenting on the points raised in this report.

### **Risk Management**

13. The improved controls and evidence in this report seek to mitigate/minimise risks associated with any breach of H&S regulations.

### **Contact Details**

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

Ian Floyd  
Deputy Chief Executive and Director Customer  
and Corporate Services

Report Approved



Date 24/01/18

**Specialist Implications Officer(s)** *List information for all*

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



## Annexes

**Annex A** Summary of Actions and Response: Health & Safety

### List of Abbreviations Used in this Report

H&S	Health & Safety
CYC	City of York Council
NYCC	North Yorkshire County Council
A&G	Audit & Governance

## ANNEX A –AGREED ACTIONS TO ADDRESS CONTROL WEAKNESSES

Action Number	Issue	Risk	Agreed Action	Priority*	Responsible Officer	Timescale
1	The premises register is incomplete.	Health and safety responsibilities are not met in a timely manner.	The premises register will be completed and technical issues resolved. This will include entering the overall property risk ratings.	2	Head of Health & Safety	April 2018
2	Not all premises have asbestos surveys.	Asbestos risks are not appropriately managed.	The H&S team will conduct surveys for those properties that require them and include the results in Techforge.	3	Head of Health & Safety	April 2018
3	Legionella and asbestos compliance notes require updating and training needs to be provided to nominated persons.	Asbestos and Legionella risks may not be managed appropriately, increasing the likelihood of exposure to asbestos or Legionella.	<p>a) The compliance notes for Legionella and asbestos will be updated.</p> <p>b) The appropriate level of training at council premises and schools will be identified.</p> <p>c) Training will be rolled out to officers who require it following the revision of the compliance notes.</p>	2	Head of Health & Safety	<p>A &amp; B – April 2018</p> <p>C – April 2019 with interim update October 2018</p>

4	Staff members requiring health surveillance are not attending appointments.	Non-attendance has a potential cost to the council, both financially and in staff time. There is also a risk of future liability claims if staff members do not receive final health checks.	<p>a) The leavers' checklist will be updated to include a requirement to notify Business Support if appropriate that the leaver requires a final health check.</p> <p>b) A decision will be taken on re-charging costs of non-attendance to services.</p>	3	Head of Human Resources	July 2018
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Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.



## Agenda Item

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### **Audit and Governance Committee**

7<sup>th</sup> February 2018

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

### **Audit & Governance Committee Forward Plan to December 2018**

#### **Summary**

1. This paper presents the future plan of reports expected to be presented to the Committee during the forthcoming year to December 2018.

#### **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 2018. 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. There have been a number of amendments made since the last version was presented to the Committee in December.
4. Due to the earlier statutory deadlines in 2017/18 the Council must prepare its Statement of Accounts by 31<sup>st</sup> May this year, one month earlier than in previous years. Consequently Committee meetings where the draft and Final accounts will be presented to the Members have been brought forward to comply with these earlier deadlines. The draft unaudited Accounts will now come to the June meeting, and Final audited accounts to the July meeting.

#### **Consultation**

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

### **Options**

6. Not relevant for the purpose of the report.

### **Analysis**

7. Not relevant for the purpose of the report.

### **Council Plan**

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

### **Implications**

9.
  - (a)**Financial** - There are no implications
  - (b)**Human Resources (HR)** - There are no implications
  - (c)**Equalities** - There are no implications
  - (d)**Legal** - There are no implications
  - (e)**Crime and Disorder** - There are no implications
  - (f) **Information Technology (IT)** - There are no implications
  - (g)**Property** - There are no implications

### **Risk Management**

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

### **Recommendations**

- 11.

- (a) The Committee's forward plan for the period up to December 2018 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  
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Telephone: 01904 551100

**Report  
Approved**



**Date**

**Specialist Implications Officers**

None

**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 2018

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## Audit & Governance Committee Draft Forward Plan to December 2018

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

Item	Lead officers	Other contributing Organisations	Scope
<b>Committee Wednesday 11<sup>th</sup> April 2018</b>			
Key Corporate Risk Monitor	<u>CYC</u> Sarah Kirby		Update on Key Corporate Risks (KCRs)
Mazars Audit Progress Report	<u>Mazars</u> – Gareth Davies/ Jon Leece		Update report from external auditors detailing progress in delivering their responsibilities as the Council's external auditors
Mazars Audit Strategy Report	<u>Mazars</u> – Gareth Davies/ Jon Leece		Report from the Councils external auditors setting out their audit plan in respect of the Councils Audit for the year ending 2018.
Approval of Internal Audit Plan	<u>Veritau</u> – Max Thomas/ Richard Smith		To seek the committees approval for the planned programme of internal audit, and counter fraud to be undertaken in 2018/19.
Internal Audit & Fraud Plan Progress Report	<u>Veritau</u> – Max Thomas/ Richard Smith		An update on progress made in delivering the internal audit work plan for 2017/18 and on current counter fraud activity
Internal Audit Follow up of Audit Recommendations Report	<u>Veritau</u> – Max Thomas/ Richard Smith		This is the regular six monthly report to the committee setting out progress made by council departments in implementing actions agreed as part of internal audit work
<i>Changes to the Constitution (If any)</i>			
<b>Committee June 2018</b>			
Draft Statement of Accounts including Annual Governance Statement	<u>CYC</u> Debbie Mitchell/ Emma Audrain		To present the draft Statement of Accounts to the Committee prior to the 2017/18 Audit including the Annual Governance Statement
Mazars Audit Progress Report	<u>Mazars</u> – Gareth Davies/ Jon Leece		Update report from external auditors detailing progress in delivering their responsibilities as the Council's external auditors

Key Corporate Risk Monitor	<u>CYC</u> Sarah Kirby		Update on Key Corporate Risks (KCRs)
Treasury Management Outturn Report	<u>CYC</u> Debbie Mitchell		To provide Members with an update on the Treasury Management Outturn position for 2017/18.
Annual Report of the Head of Internal Audit	<u>Veritau</u> – Max Thomas/ Richard Smith		This report will summarise the outcome of audit and counter fraud work undertaken in 2017/18 and provide an opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and internal control
Annual Report of the Audit & Governance Committee	<u>CYC</u> Emma Audrain		To seek Members' views on the draft annual report of the Audit and Governance Committee for the year ended 5th April 2018, prior to its submission to Full Council.

*Changes to the Constitution (If any)*

**Committee July 2018**

Mazars Audit Completion Report	<u>Mazars</u> – Gareth Davies/ Jon Leece		Report from the Councils external auditors setting out the findings of the 2017/18 Audit.
Final Statement of Accounts 2017/18	<u>CYC</u> Debbie Mitchell/ Emma Audrain		To present the final audited Statement of Accounts following the 2017/18 Audit.
Key Corporate Risks Monitor	<u>CYC</u> Sarah Kirby		Update on Key Corporate Risks (KCRs)
Information Governance & Freedom of Information Report (including information security)	<u>CYC</u> Lorraine Lunt		To provide Members with an update on current information governance issues.

*Changes to the Constitution (If any)*

**Committee September 2018**

Mazars Audit Completion Report	<u>Mazars</u> – Gareth Davies/ Jon Leece		Report from the Councils external auditors setting out the findings of the 2017/18 Audit.
Internal Audit Follow up of Audit Recommendations Report	<u>Veritau</u> – Max Thomas/ Richard Smith		This is the regular six monthly report to the committee setting out progress made by council departments in implementing actions agreed as part of internal audit work

Internal Audit & Fraud Plan Progress Report	<u>Veritau – Max Thomas/ Richard Smith</u>		An update on progress made in delivering the internal audit work plan for 2017/18 and on current counter fraud activity
Key Corporate Risks Monitor	<u>CYC Sarah Kirby</u>		Update on Key Corporate Risks (KCRs)
<i>Changes to the Constitution (If any)</i>			
<b>Committee December 2018</b>			
Treasury Management Mid Year Review 18/19 and review of prudential indicators	<u>CYC Debbie Mitchell</u>		To provide an update on treasury management activity for the first six months of 2018/19
Final Mazars Annual Audit letter	<u>Mazars – Gareth Davies/ Jon Leece</u>		To present a report summarising the outcome of the 2017/18 audit and work on the value for money conclusion.
Internal Audit & Fraud progress report	<u>Veritau – Max Thomas/ Richard Smith</u>		An update on progress made in delivering the internal audit work plan for 2018/19 and on current counter fraud activity
Review of the effectiveness of the Audit & Governance Committee	<u>Veritau – Max Thomas/ Richard Smith</u>		
Key Corporate Risks Monitor	<u>CYC Sarah Kirby</u>		Update on Key Corporate Risks (KCRs)
<i>Changes to the Constitution (If any)</i>			
<b>Other Items to be brought to the Committee - date</b>			
<i>Review of February 2017 Committee (LGA Review) – To be determined</i>			

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