Public Document Pack

CHESTERFIELD
BOROUGH COUNCIL

Please ask for Amanda Clayton
Direct Line: 01246 34 5273
Email committee.services@chesterfield.gov.uk

The Chair and Members of Standards
and Audit Committee

29 January 2019

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 6 FEBRUARY 2019 at 2.00 pm in Committee Room 2, Town Hall, Rose Hill, Chesterfield, the agenda for which is set out below.

AGENDA

Part 1(Public Information)

1. Declarations of Members' and Officers' Interests relating to Items on the Agenda

2. Apologies for Absence

3. Minutes (Pages 3 - 10)

4. Summary of Internal Audit Reports Issued (Pages 11 - 16)

5. Local Government Act 1972 - Exclusion of Public

   To move “That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 1 of Part 1 of Schedule 12A of the Act".

6. Annual Report – Standards Of Conduct (Pages 17 - 30)

7. Re-admission of the Public

8. 2017/18 Annual Governance Statement Action Plan Update (Pages 31 - 42)

9. CIPFA Fraud and Corruption Tracker Survey 2018 (Pages 43 - 70)

10. Treasury Management Strategy 2019/20 (Pages 71 - 112)

11. External Audit - Progress Report 2018/2019 (Pages 113 - 126)

Yours sincerely,

Local Government and Regulatory Law Manager and Monitoring Officer

STANDARDS AND AUDIT COMMITTEE

Wednesday, 28th November, 2018

Present:-

Councillor Rayner (Chair)

Councillors	A Diouf Caulfield Derbyshire	Councillors	Hollingworth Bean

*Matters dealt with under the Delegation Scheme

34 APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor Tidd.

35 DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS RELATING TO ITEMS ON THE AGENDA

No declarations were received.

36 MINUTES

RESOLVED –

The Minutes of the previous meeting of the Standards and Audit Committee held on 26 September, 2018 were approved and signed by the Chair as a correct record.

37 OSD PROPERTY SAFETY INSPECTIONS PROGRESS UPDATE

The Responsive Repairs Manager provided an update on the progress of implementing the recommendations in the Limited Assurance audit report on ‘OSD Property Safety Inspections’ issued on 16 May, 2018.

The committee considered a detailed implementation schedule that listed the actions that had been taken against each recommendation. Examples were provided of the work that had already been undertaken and members were satisfied the recommendations had been implemented.

The Committee thanked the Responsive Repairs Manager for attending.

*** RESOLVED –**

That the updates be noted.

38 LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF PUBLIC

***RESOLVED –**

That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

39 VERBAL UPDATE ON PROCUREMENT

The Assistant Director - Customers, Commissioning and Change explained that small incremental improvements had been made to the procurement process but the outstanding problems had not yet been resolved.

It was reported that there were 3 areas to focus on;

- Increasing capacity
- Improving the contractual position of the council
- Improving the processes of the council

An interim procurement specialist had been employed to look at what the council's specification should be in the future. It was recommended that there be a procurement lead in each service area.

A review of the management structure in the Customers, Commissioning and Change Service had been carried out and the proposals included a manager with a focus on procurement.

The Assistant Director reported that the NHS had paused the wholly owned subsidiary process but that a decision would be made in January. The NHS were stabilising their staffing and so the same staff member would be in place until mid-2019.

A Contract Compliance Register was now in place and the Council was working with the NHS on systems and processes.

The Committee thanked the Assistant Director for attending and offered the support of the committee if necessary to ensure continuous improvement.

***RESOLVED –**

1.That the update be noted.

2.That a further update be given at the April 2019 meeting.

40 LOCAL GOVERNMENT ACT 1972 - RE-ADMISSION OF PUBLIC

***RESOLVED –**

That after consideration of items containing exempt information, the public be re-admitted to the meeting.

41 SUMMARY OF INTERNAL AUDIT REPORTS ISSUED

The Internal Audit Consortium Manager presented a report summarising the internal audit reports issued during the period 1 September 2018 to 23 October 2018, in respect of reports issued relating to the 2018/19 internal audit plan.

It was noted that eight reports had been issued during this period and had been given the following levels of assurance:

- ‘Substantial Assurance’ – 4
- ‘Reasonable Assurance’ – 3
- ‘Limited Assurance’ – 1

The Environmental Services Manager attended to discuss the Limited Assurance audit report on ‘Outdoor Facilities Income’ issued on 22 October, 2018.

The Environmental Services Manager confirmed that all recommendations had been accepted and that a new Principal Green Spaces Officer would be taking up their post the following week with a brief to implement these recommendations as soon as possible.

The Committee thanked the Environmental Services Manager for attending.

*** RESOLVED –**

That the report be noted.

42 LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF PUBLIC

***RESOLVED –**

That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

43 S106 WRITE OFFS AND UNAPPLIED CONTRIBUTIONS

The Development Management and Conservation Manager presented a report responding to recommendations made in a recent Internal Audit Report.

The report outlined arrangements for the collection or writing off of old s106 agreement payments and for the use of unspent funds received by the Council.

The Development Management and Conservation Manager assured the committee that procedures are now in place to process and monitor any s106 funds.

The Committee thanked the Development Management and Conservation Manager for attending.

*** RESOLVED –**

That the report be noted.

44 LOCAL GOVERNMENT ACT 1972 RE-ADMISSION OF PUBLIC

***RESOLVED –**

That after consideration of items containing exempt information, the public be re-admitted to the meeting.

45 ANNUAL AUDIT LETTER 2017/18

The Annual Audit Letter from Mr Tony Crawley of KPMG had been received for the year 2017/18.

The Annual Audit Letter summarised the outcome from the external auditor's work at the Council during 2017/18, including reference to:

- The unqualified conclusion on the authority's arrangements to secure value for money;
- The unqualified opinion on the authority's financial statements;
- The review of the Annual Governance Statement; and
- Confirmation of the audit fee for 2017/18 as £52,445 excluding VAT.

It also gave a summary of reports issued during 2018, which included:

- Certification of Grants and Returns;
- External Audit Plan;
- Auditor's Report;
- Report to Those Charged with Governance; and
- Annual Audit Letter for 2017/18.

*** RESOLVED –**

That the Annual Audit Letter for 2017/18 be received.

This page is intentionally left blank

STANDARDS AND AUDIT COMMITTEE

Wednesday, 5th December, 2018

Present:-

Councillor Rayner (Chair)

Councillors	Derbyshire Hollingworth	Councillors	Tidd

*Matters dealt with under the Delegation Scheme

46 DECLARATIONS OF MEMBERS' AND OFFICERS' INTERESTS RELATING TO ITEMS ON THE AGENDA

Councillor Derbyshire noted that she was a volunteer under the project referred to in Minute 49 but had not begun until after the matter referred to and had no role with, or knowledge of, management of the project.

Councillors Hollingworth and Tidd confirmed that they had no interests to declare.

47 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Bean, Caulfield and A Diouf.

48 LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF PUBLIC

***RESOLVED –**

That under Section 100(A)(4) of the Local Government Act 1972 the public be excluded from the meeting for the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Act.

49 COMPLAINT REFERRED FOR DETERMINATION

The Monitoring Officer advised the committee that the investigating officer was unable to attend due to ill health and that one of the witnesses, appearing on behalf of the councillor complained about, had very limited availability that day. He therefore recommended that the meeting be adjourned to a later date.

***RESOLVED –**

That consideration of the complaint be deferred to a future meeting of the committee at a date to be confirmed.

For publication

Summary of Internal Audit Reports Issued 2018/19

Meeting:	Standards and Audit Committee
Date:	6th February 2019
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 **Purpose of report**

1.1 To present for members' information a summary of Internal Audit Reports issued during the period 24th October 2018 to 18th January 2019 in respect of reports issued relating to the 2018/19 internal audit plan.

2.0 **Recommendation**

2.1 That the report be noted.

3.0 **Report details**

3.1 The Public Sector Internal Audit Standards require that the Internal Audit Consortium Manager reports periodically to the Standards and Audit Committee in respect of performance against the audit plan. Significant risk and control issues should also be reported.

3.2 Attached, as Appendix A, is a summary of reports issued covering the period 24th October 2018 to 18th January 2019, for audits included in the 2018/19 internal audit plan. This period 4 reports have been issued 2 with substantial assurance and 2 with reasonable assurance.

3.3 Appendix A shows for each report a summary of the scope and objectives of the audit, the overall conclusion of the audit and the number of recommendations made / agreed where a full response has been received.

3.4 The conclusion column of Appendix A gives an overall assessment of the assurance that can be given in terms of the controls in place and the system's ability to meet its objectives and manage risk in line with the definitions below.

Assurance Level	Definition
Substantial Assurance	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
Reasonable Assurance	The majority of controls are in place and operating effectively, although some control improvements are required. The system should achieve its objectives. Risks are generally well managed.
Limited Assurance	Certain important controls are either not in place or not operating effectively. There is a risk that the system may not achieve its objectives. Some key risks were not well managed.
Inadequate Assurance	There are fundamental control weaknesses, leaving the system/service open to material errors or abuse and exposes the Council to significant risk. There is little assurance of achieving the desired objectives.

3.5 In respect of the audits being reported, it is confirmed that there were no issues arising relating to fraud that need to be brought to the Committees attention.

3.6 The production of this report ensures that Members charged with governance are aware of any internal control weaknesses or fraud identified by internal audit.

4 Alternative options and reasons for rejection

4.1 The report is for information.

5 Recommendation

5.1 That the report be noted.

6 Reasons for recommendation

6.1 To inform Members of the internal audit reports issued in order that the strength of the internal controls in place can be assessed.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	This report links to the Council's priority to provide value for money services.

Document information

Report author	**Contact number/email**
Jenny Williams – Internal Audit Consortium Manager	**01246 345468** **Jenny.williams@chesterfield.gov.uk**

Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix A	Summary of Internal Audit Reports Issued

Appendix A

Chesterfield Borough Council – Internal Audit Consortium

Report to Standards and Audit Committee

Summary of Internal Audit Reports Issued 2018/19– Period 24th October 2018 to 18th January 2019

Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
16	Markets Income	To ensure that all markets income is collected and banked promptly, accurately and securely	Reasonable	12/11/18	3/12/18	3/12/18	7 (2M 5L)	7
17	Private Sector Housing Grants	To ensure that the correct procedure is followed in relation to all grants paid	Reasonable	23/11/18	14/12/18	2/01/19	14 (3M 11L)	14
18	Cash and Bank	To ensure that all monies are received and banked promptly and accurately	Substantial	7/01/19	30/01/19	N/A	0	0
19	Housing Rents Accounting System	To ensure that rents are raised and collected promptly and accurately	Substantial	14/01/19	4/02/2019		4L	Response Not due at time of writing report

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

For publication

Progress made on the implementation of the Annual Governance Statement Action Plan 2017/18

Meeting:	Standards and Audit Committee
Date:	February 6th 2019
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 Purpose of report

1.1 To provide members with an update in respect of the progress made towards implementing the 2017/18 Annual Governance Statement Action Plan.

2.0 Recommendation

2.1 That the report be noted.

3.0 Report details

3.1 Each year the Council reviews the governance arrangements it has in place, including a review of the Code of Corporate Governance.

3.2 Following this review, an Annual Governance Statement for the Council is produced as required by the Accounts and Audit (England) Regulations 2015.

3.3 Part of the review entails formulating an action plan to address any areas of concern that have been identified.

3.4 In May 2018 this Committee approved the Annual Governance Statement and Action Plan and agreed that progress on the action plan would be monitored by the Corporate Management Team (CMT)

3.5 CMT has reviewed the progress made against the Annual Governance Statement Action Plan and a summary is shown at Appendix 1. Positive progress has been made in all areas and work continues to improve further.

3.6 The production of this report ensures that Members charged with governance are aware of the progress made in implementing the annual governance statement action plan. This therefore ensures that any outstanding internal control weaknesses are identified so that they can be acted upon in a timely manner.

4.0 Alternative options and reasons for rejection

4.1 This report is for information.

5.0 Recommendation

5.1 That the report be noted.

6.0 Reasons for recommendation

6.1 To inform Members of the progress made in respect of implementing the 2017/18 Annual Governance Statement Action Plan so that further action can be identified if this is not satisfactory.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	This report links to the Council's priority to provide value for money services.

Document information

Report author	Contact number/email
Jenny Williams – Internal Audit Consortium Manager	**01246 345468** **Jenny.williams@chesterfield.gov.uk**
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix 1	Annual Governance Statement 2017/18 Action plan- Progress at the end of January 2019.

This page is intentionally left blank

Appendix 1

CHESTERFIELD BOROUGH COUNCIL – ANNUAL GOVERNANCE STATEMENT 2017/18 ACTION PLAN - PROGRESS AS AT THE END OF JANUARY 2019

CHESTERFIELD BOROUGH COUNCIL – ANNUAL GOVERNANCE STATEMENT 2017/18 ACTION PLAN

	Governance Issue	Action Proposed				Progress at end January 2019
		Description	By Date	Officer	Priority	
1	Budget – There are future budget gaps in relation to the general fund and HRA as identified in the Medium Term Financial Plan 2018/19 – 2022/23.	Need to continue to closely manage the Medium Term Financial Plan to ensure that the Council remains of sound financial standing, and to support decisions on the alignment of budgets to enable delivery of the Council's corporate plan for the period 2015-2019. This will be achieved through the established mechanisms for financial planning and reporting:- • Finance and Performance Board • Corporate Cabinet and CMT meetings • Monthly budget monitoring reports to Service Managers • Quarterly budget monitoring reports to the Council, Cabinet and Scrutiny Forum • Quarterly finance meetings with AD budget holders Further savings and income generation plans are in the process of being developed.	Ongoing	Members / SLT / CMT Director of Finance and Resources	H	The Council is forecast to balance the General Fund for 2018/19 with a £0 outturn. The MTFP (5yr) from 2019/20 shows a £280k deficit rising to £1.3m by 2023/24. There is a requirement for £1m in IT transformation savings by 2023/24 otherwise the deficit will be £2.3m. The HRA Business Plan currently being drafted is expected to show a balanced (surplus) HRA account for 2018/19 and over the 5 year medium term.

	Governance Issue	Action Proposed				Progress at end January 2019
		Description	By Date	Officer	Priority	
2	Data Protection – work is required to ensure that the Council will be able to comply with the new European Data Protection Regulations that come in to force from May 2018.	Progress against the GDPR action plan will be closely monitored and corrective action taken if necessary.	End May 2018 and ongoing via ICT Improvement Programme	Assistant Director - Customers, Commissioning and Change	H	The GDPR action plan has been implemented, ensuring the Council is able to comply with new regulations. An information assurance risk register is in place which details outstanding information assurance risks and the mitigating actions which are being undertaken by the council to reduce / remove risks

	Governance Issue	Action Proposed				Progress at end January 2019
		Description	By Date	Officer	Priority	
3	Information Technology - The Council's IT infrastructure is in need of investment to ensure that it is fit for purpose and can successfully support the Council's transformation projects.	The Council needs to monitor progress against the approved 3 year improvement plan.	Plan over 3 year period	Assistant Director - Customers, Commissioning and Change	H	The Council has improved investment in ICT and has transferred the service to in house delivery from 18 October 2018. The Council is on target to achieve the outcomes which were set for delivery in 2018, namely improving theatre box office service levels, increasing skills and knowledge within ICT, increasing infrastructure resilience, achieving Cyber Essentials + and delivering the 1st end to end digital processes. There is some slippage in the number of digital processes which will be implemented in 2018 and the position will be recovered during 2019. Project and Executive Boards are in place to monitor progress and performance.

	Governance Issue	Action Proposed				Progress at end January 2019
		Description	By Date	Officer	Priority	
4	Non Housing Property Repairs – The previous 10 year plan has not been adhered to, monitored for completion or adjusted as a result of condition surveys. The first dozen assets have now been assessed for condition and costed for capital and revenue works required. This issue has been carried forward from 2015/16.	The Council's partner will undertake further work to assess the condition of the remaining Council's assets and build the work required in to capital and revenue plans. The next tranche of assets has been identified for review.	March 2019	Director of Finance and Resources	H	A second tranche of 8 Council assets (the first covered 11 assets) is currently being reviewed by Kier. Only large assets owned by the Council are being assessed. The risk to the Council is that a large number of assets will require substantial future property repairs spend currently unbudgeted. As the costs become clearer decisions will be required to rationalise poor quality assets, increase contribution to the property repairs fund or to borrow for major capital repairs.

	Governance Issue	Action Proposed				Progress at end January 2019
		Description	By Date	Officer	Priority	
5	Health and Safety - There has been a lack of corporate capacity to ensure that health and safety arrangements are fit for purpose. This has been compounded by the departure of the Health and Wellbeing Manager and continuing asbestos work. This issue has been carried forward from 2016/17.	A new Health and Wellbeing Manager has been appointed from April 2018. A revised staffing structure and an action plan with resource requirements have been developed in consultation with health and safety representatives. Progress against the action plan will be monitored by the Corporate Leadership team and the Standards and Audit Committee.	Regular monitoring of plan	Assistant Director - Health and Wellbeing/ Executive Director / Standards and Audit Committee.	H	A corporate health and safety recovery plan was established to focus efforts on tackling the issues that were referenced within the audit report. Progress on all areas has been good, resulting in all areas being classified as either green or amber on the associated RAG rating. A number of areas have been completed in full with the remaining seeing good progress made in ensuring compliance. This has been an extensive undertaking but all involved have shown real collaboration to tackle this issue.

	Governance Issue	Action Proposed				Progress at end January 2019
		Description	By Date	Officer	Priority	
6	Procurement – A recent audit identified that there is no approved strategy in place and there has been no training for officers. The procurement process requires improvement from start to finish, from identifying the procurement need through to the letting and management of the contract so the council can demonstrate that the tendering and letting of contracts is in line with EU Regulations, Financial Regulations and Standing Orders. The Council should also take steps to comply with the government transparency code (details of contracts over £5,000 to be published).	Training will be provided to key officers as a matter of urgency. The Council will compile a comprehensive contracts register and publish this on its website. The procurement Strategy will be approved and publicised. The Council intends to undertake a full review of its means of procuring in 2018/19.	June 18 June 18 Dec 18 March 19	Assistant Director - Customers, Commissioning and Change	H	The Council is looking to extend its procurement contract with the NHS for at least 2019/20. Other options will be explored in 2019 if the NHS contract is not VFM. Contract discussions are ongoing hopefully for completion in early 2019. The NHS service has been slowly improving as it recruits to new posts and resolves service issues. The contract is principally for large OJEU procurements only. The Council's contract registers are nearing completion. A lot more work is still needed to get procurement into the right place. This will take place in 2019.

	Governance Issue	Action Proposed				Progress at end January 2019
		Description	By Date	Officer	Priority	
7	Workforce Capacity – Ongoing budget challenges and service demands mean that the Council will continue to need to manage workforce capacity.	Workforce capacity needs to be managed and reviewed regularly.	Ongoing	Corporate Mgment Team / HR	H	SLT and CMT review the impact of new workloads and projects to determine priorities and direct resources. Vacancy control processes are in place, allowing the Council to review and determine whether vacancies should be filled. Individual performance, capacity and capability is closely monitored through the half yearly performance reviews and training and development plans are in place to address capability gaps. A ‘people’ plan, which is aligned to the workforce strategy is being developed and will be implemented in 2019/20.

	Governance Issue	Action Proposed				Progress at end January 2019
		Description	By Date	Officer	Priority	
8	The Performance Monitoring framework requires embedding	Work will concentrate on improving the thread from the Council Plan to service plans. This relies on Service Plans being produced. More measurable PI's will be introduced and reported upon.	March 19	Assistant Director - Policy and Communi cations	M	Vast improvement for 2018/19 with 6/7 service plans being received. Plans include improvements to performance indicators and projects which has supported increased information and challenge via Finance and Performance Board and Scrutiny. Further improvements planned to coincide with new Council Plan and Performance Management Framework 2019 – 2023.
9	Monitoring arrangements for partnerships require review and update.	The Partnership Strategy requires review. This activity has been paused due to the complexity and pace of change in partnership arrangements at the moment. Horizon scanning activity has been taking place with the political and officer leadership teams to identify next steps.	March 19	Assistant Director - Policy and Communi cations	M	Draft partnership guidance / protocol has been developed and is currently out for consultation with SLT/CMT and relevant managers. This includes new arrangements for considering partnership arrangements including concerns and resource requests at Finance and Performance Board. New arrangements will be in place for 2019/20.

For publication

CIPFA Fraud and Corruption Tracker Survey 2018

Meeting:	Standards and Audit Committee
Date:	6th February 2019
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 **Purpose of report**

1.1 To present, for members' information the results of CIPFA'S Fraud and Corruption Tracker Survey 2018 (CFaCT) that provides a picture of fraudulent activity in local government.

1.2 To detail the controls and procedures that CBC has in place to mitigate the risk of fraud.

2.0 **Recommendations**

2.1 That the results of CIPFA's fraud and Corruption Tracker survey be noted.

2.2 That the fraud prevention measures that CBC has in place to reduce the risk of fraud be noted.

3.0 **Report details**

3.1 Each year the Audit Commission used to publish a report titled “Protecting the Public Purse” which highlighted the risks posed by fraud to Local Authorities and identified best practice in procedures to minimise these risks.

3.2 The CIPFA Counter Fraud Centre was launched in July 2014 to fill the gap in the UK fraud arena following the closure of the National Fraud Authority and the Audit Commission. The fourth CFaCT survey was carried out in May 2018 with the aim of providing a national picture of fraud, bribery and corruption in local government.

3.3 The key findings of the 2018 CIPFA Fraud and Corruption Tracker were:-

- An estimated £302 million of fraud (80,000 frauds) have been detected or prevented across local authorities in 2017/18. This has dropped from £336 million in 2016/17.
- The average value per fraud decreased from £4,500 in 2016/17 to £3,600 in 2017/18.
- The survey found that the largest growing area of fraud was business rate fraud increasing from £4.3 million in 2016/17 to £10.4 million in 2017/18.
- Procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas
- Two thirds of identified frauds relate to council tax fraud (66%) with a value of £9.8 million.
- The highest area of fraud detected/prevented from investigations was housing and tenancy fraud, totalling 97.4 million.

- 51% of organisations who responded have a dedicated counter fraud service.

3.4 This evidences that fraud is still a major financial threat to local authorities.

CBC Fraud Prevention Measures

3.5 CBC takes the risk of fraud very seriously and has a range of measures in place to reduce the risk of fraud occurring.

- There is an established approach of a zero tolerance policy towards fraud which is set out in the Council's Anti – Fraud and Bribery and Corruption Policy (including Money Laundering Policy) that was last approved by this Committee on the 26th September 2018.
- There is an allowance for special investigations in the internal audit plan.
- The Internal audit plan covers the whole of the organisation.
- The National Fraud Initiative is participated in and the results are subject to an internal audit report.
- Potential Council Tax Support frauds are investigated by council tax staff (Benefit fraud is now dealt with by the DWP)
- Data matching processes with the DWP and HMRC
- The Council has a Confidential Reporting Code (Whistleblowing Policy)
- The Council has a fraud risk register

- Recruitment procedures ensure that checks are undertaken to prevent the council employing people working under false identities etc.
- Council tax have a rolling program of discount exemption checks
- The IT systems are Public Sector Network (PSN) compliant
- In September 2016 a self- assessment was undertaken against the “Local Government Counter Fraud and Corruption Strategy 2016 – 19” checklist. The results were reported to this committee.
- In September 2016 all CBC managers attended a fraud awareness training session.
- There is now a fraud module on Aspire Learning that can be completed by all staff.

4 Alternative options and reasons for rejection

4.1 The report is for information.

5 Recommendations

5.1 That the results of CIPFA’s fraud and Corruption Tracker survey be noted.

5.2 That the fraud prevention measures that CBC has in place to reduce the risk of fraud be noted.

6 Reasons for recommendations

6.1 To inform Members of the results of the CIPFA Fraud and Corruption Tracker survey.

6.2 To provide Members with details of the fraud prevention measures in place at CBC.

Decision information

Key decision number	N/A
Wards affected	All
Links to Council Plan priorities	This report links to the Council's priority to provide value for money services.

Document information

Report author	**Contact number/email**
Jenny Williams – Internal Audit Consortium Manager	**01246 345468** **Jenny.williams@chesterfield.gov.uk**

Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendix A	CIPFA's Fraud and Corruption Tracker CFaCT Survey Summary

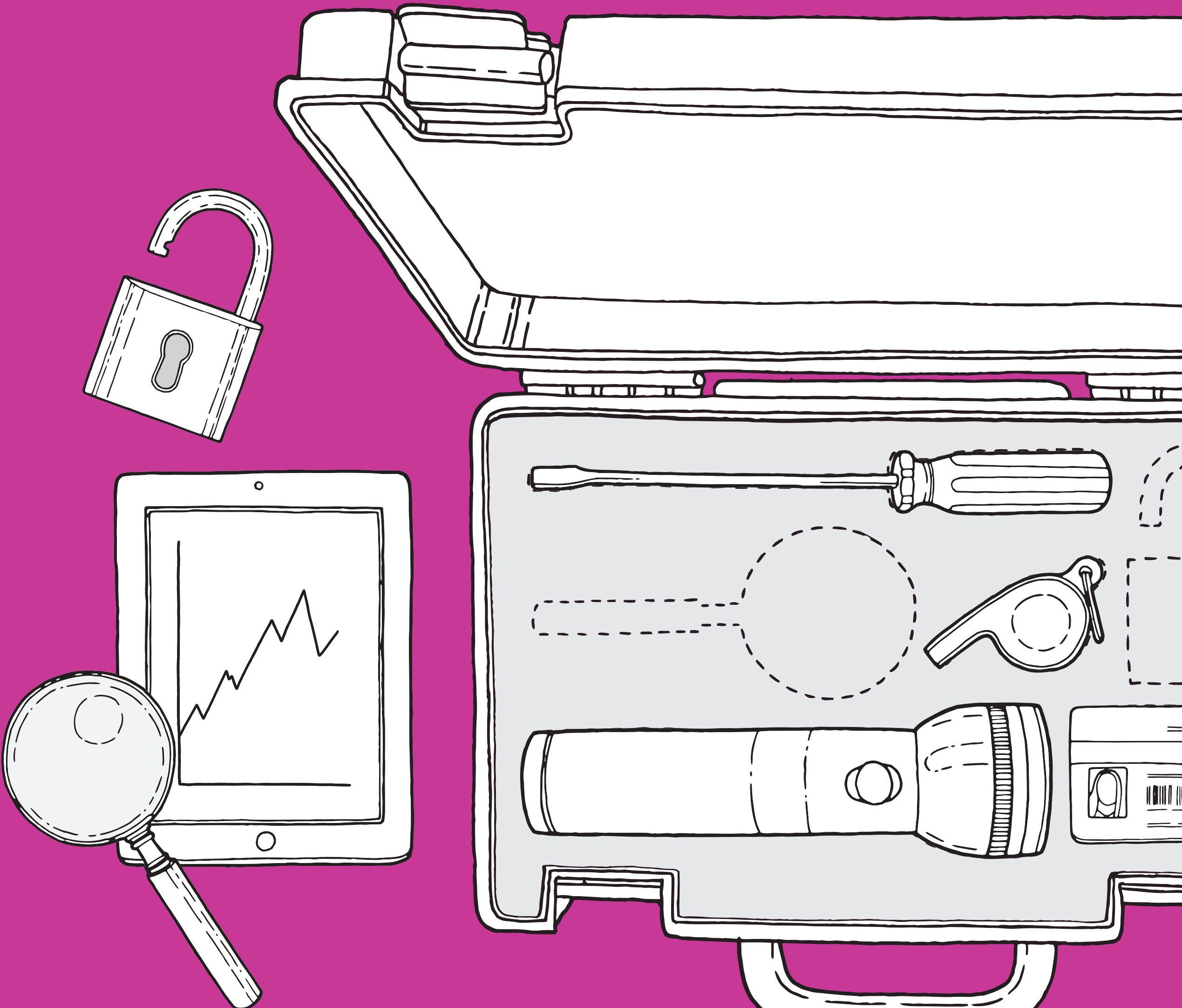
<u>Form to return to Democratic Services with report</u>
<u>(will be removed before publication)</u>

Officers/members consulted on the report	
Communications	Y
Human Resources	Y
Finance	Y
Legal	Y
Information Assurance	☐
Consultation and Engagement	☐
Equality, diversity and human rights	☐
Cabinet member portfolio holder (and consultee cabinet member if applicable)	
Comments from Cabinet Member (if applicable)	

CIPFA The Chartered Institute of Public Finance & Accountancy

fraud and corruption tracker

Summary Report 2018



CIPFA COUNTER FRAUD CENTRE

Contents

3 Foreword

5 Introduction

6 Executive summary

8 Main types of fraud

– Council tax

– Housing and tenancy

– Disabled parking (Blue Badge)

– Business rates

11 Other types of fraud

– Adult social care

– Insurance

– Procurement

– Welfare assistance and no recourse to public funds

– Economic and voluntary sector support (grant fraud) and debt

– Payroll, expenses, recruitment and pension

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

14 Serious and organised crime

14 Whistleblowing

15 Resources and structure

15 Sanctions

16 Fighting Fraud and Corruption Locally

17 CIPFA recommends

18 Appendix 1: Fraud types and estimated value/volume

19 Appendix 2: Methodology

20 Appendix 3: Glossary

Foreword

As guardians of public resources, it is the obligation of every public sector organisation in the UK to fight fraud and corruption. Taking effective measures in counter fraud amounts to much more than simply saving money, as illegitimate activities can undermine the public trust, the very social licence, which is essential to the ability of organisations to operate effectively.

The CIPFA Fraud and Corruption Tracker (CFaCT) survey aims to help organisations, and the public at large, better understand the volume and type of fraudulent activity in the UK and the actions which are being taken to combat it.

With support from the National Audit Office (NAO), the National Crime Agency (NCA) and the Local Government Association (LGA), these insights reflect the current concerns of fraud practitioners from local authorities in a bid to create a focus on trends and emerging risks.

Key findings this year, such as the continued perception of procurement as the area at most susceptible to fraud, and the growing cost of business rates fraud, should help councils allocate resources appropriately to counter such activity.

For this reason, the 2018 CFaCT survey should be essential reading for all local authorities as part of their ongoing risk management activity. It provides a clear picture of the fraud landscape today for elected members, the executive and the professionals responsible for countering fraud, helping their organisations benchmark their activities against counterparts in the wider public sector.

When councils take effective counter fraud measures they are rebuilding public trust, and ensuring our increasingly scarce funds are being used effectively to deliver services.

Rob Whiteman
Chief Executive, CIPFA

The survey was supported by:

NAO National Audit Office

NCA National Crime Agency

Local Government Association

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. Building on CIPFA's 130-year history of championing excellence in public finance management, we offer training and a range of products and services to help organisations detect, prevent and recover fraud losses.

We lead on the national counter fraud and anti-corruption strategy for local government, Fighting Fraud and Corruption Locally, and were named in the government's Anti-Corruption Plan (2014) as having a key role to play in combatting corruption, both within the UK and abroad.

CIPFA **COUNTER**
FRAUD CENTRE

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/best practices, including:

- Local Government Association
- Solace
- Home Office
- The Fighting Fraud and Corruption Locally board
- Salford City Council
- Sandwell Council

Introduction

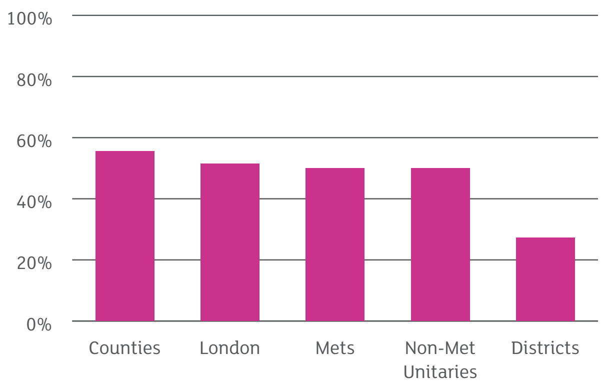
CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the Annual Fraud Indicator 2013, which provides the last set of government sanctioned estimates, fraud costs the 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 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.

In May 2018, CIPFA conducted its fourth annual CFaCT survey, drawing on the experiences of practitioners and the support and expertise of key stakeholders to show the changing shape of the fraud landscape. This survey aims to create a national picture of the amount, and types of fraud carried out against local authorities.

The results were received from local authorities in all regions in the UK, allowing CIPFA to estimate the total figures for fraud across England, Scotland, Wales and Northern Ireland.

Response rate



This report highlights the following:

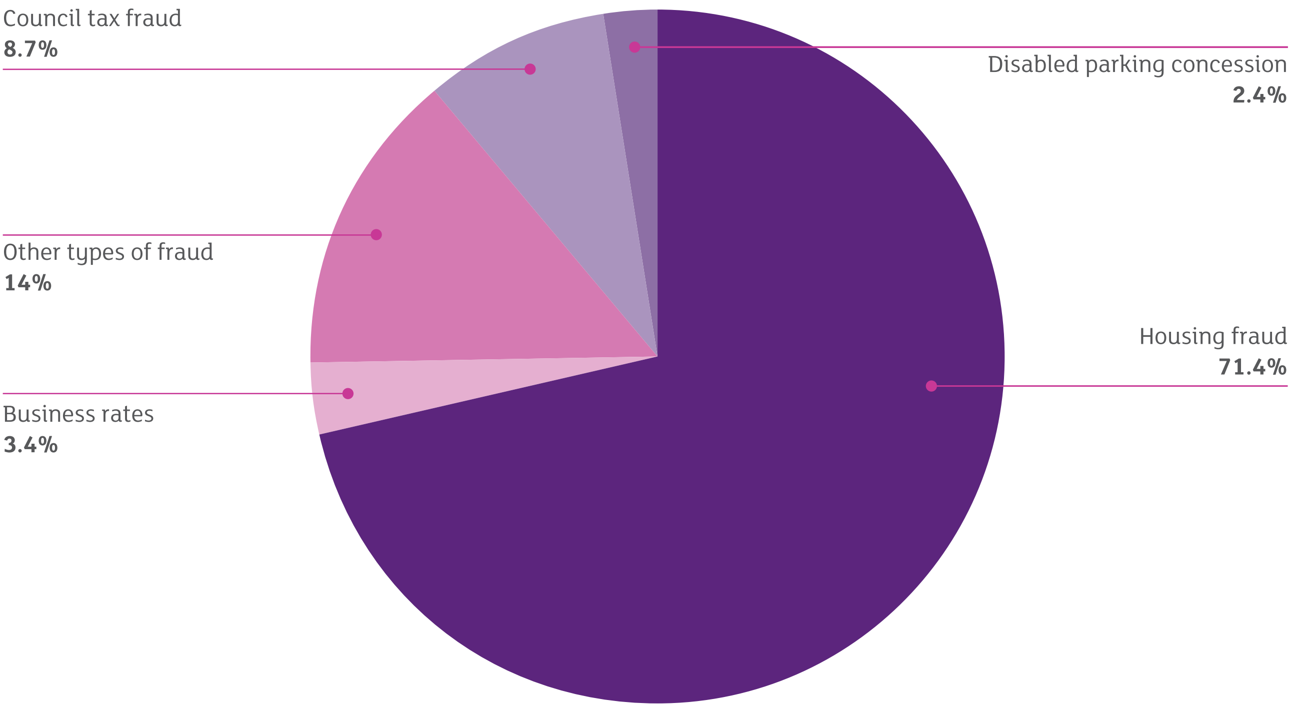
- the types of fraud identified in the 2017/18 CFaCT survey
- the value of fraud prevented and detected in 2017/18
- how to improve the public sector budget through counter fraud and prevention activities
- how the fraud and corruption landscape is changing including emerging risks and threats.

Executive summary

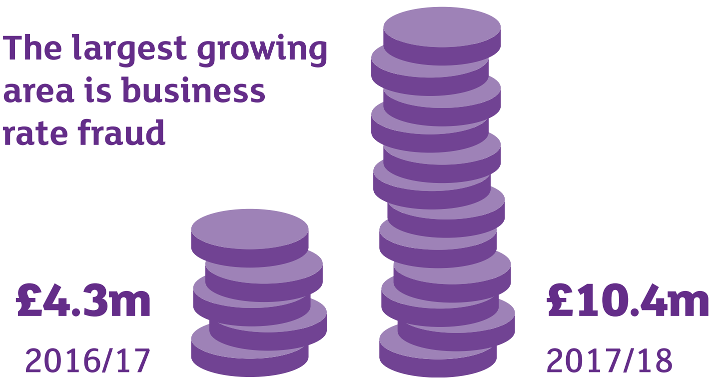
CIPFA has estimated that for local authorities in the UK, the total value of fraud detected or prevented in 2017/18 is £302m, which is less than the £336m estimated in 2016/17. The average value per fraud has also reduced from £4,500 in 2016/17 to £3,600 in 2017/18.

Respondents report that approximately 80,000 frauds had been detected or prevented in 2017/18, which is a slight increase from just over 75,000 frauds in 2016/17. The number of serious and organised crime cases, however, has doubled since 2016/17. This increase may suggest that fraud attacks are becoming more complex and sophisticated due to fraud teams becoming more effective at prevention. Alternatively, fraud teams may have developed a more effective approach for detecting or preventing such frauds.

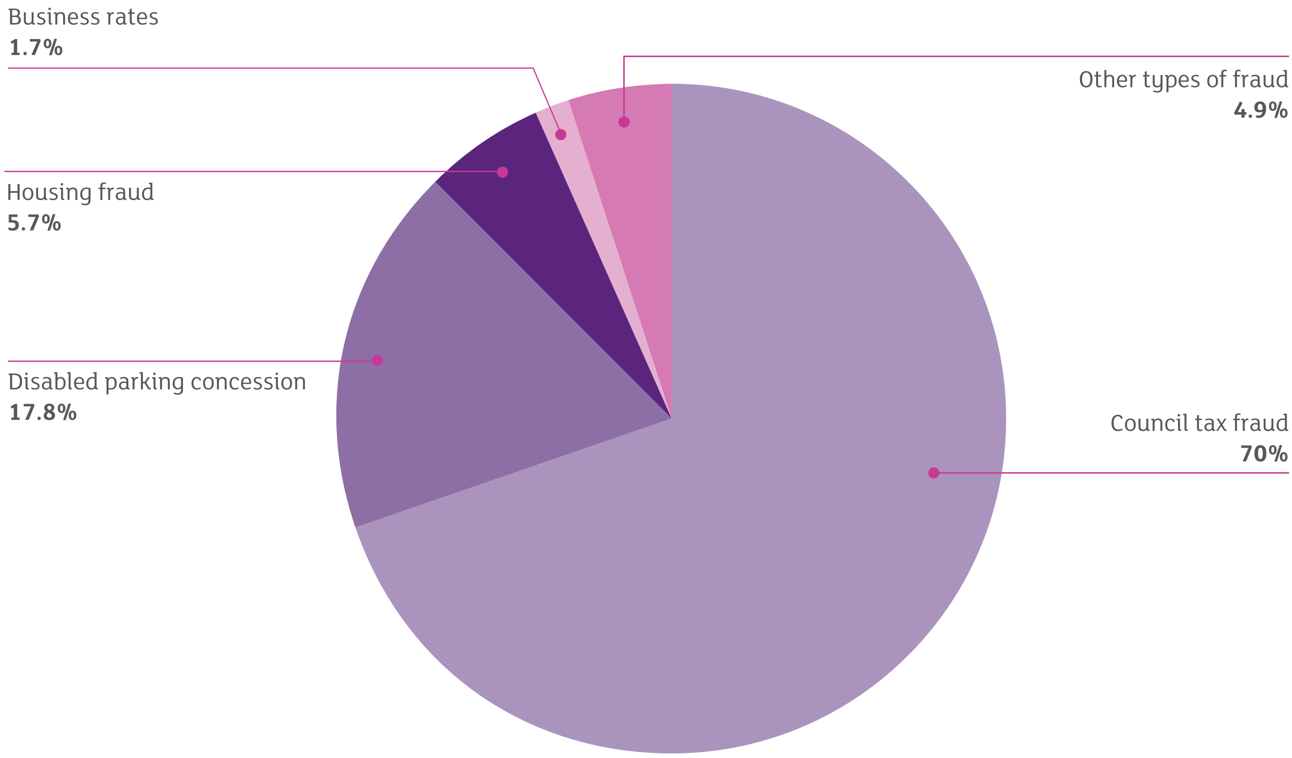
Estimated value of fraud detected/prevented



The largest growing area is business rate fraud



Detected fraud by estimated volume



For 2017/18, it has been highlighted that the three greatest areas of perceived fraud risk are procurement, council tax single person discount (SPD) and adult social care.

The largest growing area is business rates fraud, with an estimated £10.4m lost in 2017/18 compared to £4.3m in 2016/17. This is followed by disabled parking concession (Blue Badge) which has increased by £3m to an estimated value of £7.3m for cases prevented/detected in 2017/18.

Two thirds of identified frauds related to council tax fraud (66%), with a value of £9.8m, while the highest value detected/prevented from investigations was housing fraud, totalling £97.4m.

None of the respondents reported any issues with needing greater public support for tackling fraud, but some agreed that there needs to be an increased priority given within councils to tackling fraud.

Historically, it is shown that the more effective and efficient authorities are at detecting and preventing fraud, the more they will discover. This means that even if the levels of detection and prevention have increased, this is more likely due to a greater emphasis towards battling fraud rather than weak controls.

Main types of fraud

The 2017/18 CFaCT survey indicates that there are four main types of fraud (by volume) that affect local authorities:

1. council tax
2. housing
3 disabled parking (Blue Badge)
4. business rates.

Council tax

Council tax fraud has consistently been the largest reported issue over the last four years. 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.

It has traditionally been an area of high volume/low unit value, and this year's results reflect that trend. Council tax fraud represents the highest number of fraud cases reported by local authorities (66%), however, the total value of the fraud, estimated at £26.3m in 2017/18, accounts for only 8.7% of the value of all detected fraud.

The number of detected/prevented cases in the area of council tax SPD has reduced from 2016/17 levels, but we see a rise in the number of incidents and value in council tax reduction (CTR) and other forms of council tax fraud.

Estimated council tax fraud

	2016/17		2017/18	
	Volume	Value	Volume	Value
SPD	50,136	£19.5m	46,278	£15.8m
CTR	6,326	£4.8m	8,759	£6.1m
Other	674	£1.1m	2,857	£4.5m
Total	**57,136**	**£25.5m**	**57,894**	**£26.3m**

"Council tax fraud represents the highest number of fraud cases reported, but only 8.7% of the detected value."

Housing and tenancy fraud

Housing is expensive in many parts of the country, particularly in the South East of England, and therefore a low number of cases produces a high value in terms of fraud. However, councils record the income lost to housing fraud using different valuations, ranging from a notional cost of replacing a property set by the National Fraud Initiative (NFI) to the average cost for keeping a family in bed and breakfast accommodation for a year.

The difference in approach can lead to substantial differences. For example, two years ago, the NFI increased its standard notional figure to include other elements, and this increased the figure to £93,000, which is substantially larger than the previous figure of £18,000. This means that authorities may be using differing notional figures to calculate their average valuation of loss, which in turn leads to variations.

As housing has become increasingly expensive, the value of right to buy fraud is evidently higher than the other types of housing fraud. The value of this type of fraud is higher in London than in other parts of the country, with an estimated average of £72,000 per case compared to the rest of the UK combined, which has an estimated total of £50,000 per case.

However, the overall value and value of right to buy fraud has continued to decline – see table below.

Estimated housing fraud

Type of fraud	2016/17		2017/18	
	Volume	Value	Volume	Value
Right to buy	1,284	£111.6m	1,518	£92.0m
Illegal sublet	1,829	£78.5m	1,051	£55.8m
Other*	2,825	£73.3m	2,164	£68.3m
Total	**5,938**	**£263.4m**	**4,733**	**£216.1m**

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

Disability Faculty Grant and housing fraud

Ms C used her disabled child as a means of requesting money from the local authority to fit a downstairs bathroom in their home. This request was rejected but Ms C appealed and the matter was taken to court where it was revealed that she owned multiple properties and was actually living in a different county, where she was also claiming disability benefits. The appeal was denied and Ms C was instructed to pay over £16,000 in court costs within half a year.

Since 2016/2017, right to buy value has decreased by

18%

£216m

the estimated total value loss from housing fraud investigated during 2017/18

Disabled parking (Blue Badge)

Fraud from the misuse of the Blue Badge scheme has increased for the first time since CIPFA began running the survey, with the number of cases rising by over 1,000 between 2016/17 and 2017/18. The survey also indicates that 49% of Blue Badge fraud cases in 2017/18 were reported by counties.

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 more in counter fraud resource.

The cost of parking in London results in a higher value to case ratio, which is shown in the average value per case reported – £2,150 in comparison to counties who had an average of £449 per case.

In the event that a Blue Badge misuse is identified, the offender is often prosecuted and 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, resulting in a loss of funds. This potential loss could explain why authorities do not focus as much attention on this type of fraud.

Blue Badge fraud is often an indicator of other benefit-related frauds, such as concessionary travel or claims against deceased individuals by care homes for adult social care.

49%

of Blue Badge fraud cases in 2017/18 were reported by counties

The average value per case reported is:

£2,150

in London

£449

in counties

Business rates

Business rates are a key cost for those who have to pay the tax and is the largest growing risk area in 2017/18; district councils have identified this as their fourth biggest fraud risk area for 2017/18 after housing fraud, council tax and procurement.

Business rates fraud represented 0.9% of the total number of frauds reported in 2016/17, with an estimated value of £7m. In 2017/18, this increased to 1.7%, with an estimated value of £10.4m.

The rise in the number and value of fraud detected/prevented since 2016/17 could be as a result of more authorities participating in business rates data matching activities, uncovering more cases of fraud that had previously gone unnoticed.

Data matching uncovers business rates fraud

The fraud team at Salford City Council undertook a business rates data matching exercise with GeoPlace. They used geographical mapping and other datasets to identify businesses that were not on the ratings list and were hard to find. The results identified seven potential business and the cases were sent to the Valuation Office Agency. Of the three returned to date, one attracted small business rate relief and rates on the other two were backdated to 2015, generating a bill of £90,000.

Other types of fraud

Fraud covers a substantial number of areas and within organisations these can vary in importance. This part of the report looks at specific areas of fraud that did not appear as major types of fraud within the national picture but are important to individual organisations. These include the following fraud types:

- adult social care
- insurance
- procurement
- no recourse to public funds/welfare assistance
- payroll, recruitment, expenses and pension
- economic and voluntary sector support and debt
- mandate fraud and manipulation of data.

Adult social care

The estimated value of adult social care fraud cases has increased by 21%, despite a fall in the average value per case – £9,000 in 2017/18 compared to £12,500 in 2016/17. This is a product of the significant rise in the number of frauds within adult social care which are not related to personal budgets. In recent years, many local authorities have funded training and introduced robust controls to mitigate the risk of fraud within personal budgets, which has resulted in a reduction of the estimated value per case to under £9,800 in 2017/18 compared to over £10,000 in 2016/17.

This year's survey also highlights a decline in the number of adult social care insider fraud cases, with 2% of cases involving an authority employee, compared to 5% last year.

Estimated adult social care fraud

Type of fraud	2016/17		2017/18	
	Volume	Value	Volume	Value
Personal budget	264	£2.7m	334	£3.2m
Other	182	£2.8m	403	£3.5m
Total	**446**	**£5.5m**	**737**	**£6.7m**
Average value per fraud		**£12,462**		**£9,123**

Insurance fraud

The number of insurance frauds investigated has decreased to 117 with an average value of over £12,000, which explains the significant decline also in the total value of fraud detected/prevented. The total estimated value of loss in 2017/18 is £3.5m compared to £5.1m in 2016/17.

Respondents who identified insurance fraud also reported two confirmed serious and organised crime cases and two insider fraud cases.

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, which seems to be effective given the steady decline in volume and value of cases reported.

The Insurance Fraud Bureau was one of the first to use a data analytical tool to identify fraud loss through multiple data sources in the insurance sector. This best practice is now being applied to local government, for example by the London Counter Fraud Hub, which is being delivered by CIPFA.

Procurement fraud

In last year's survey procurement was seen as one of the greatest areas of fraud risk and this remains the same for 2017/18.

Procurement fraud takes place in a constantly changing environment and can occur anywhere throughout the procurement cycle. There can be significant 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.

In 2016/17, there was an estimated 197 prevented or detected procurement frauds with an estimated value of £6.2m, which has now decreased to 142 estimated fraudulent cases with an estimated value of £5.2m. Twenty-five percent of reported cases were insider fraud and a further 20% were serious and organised crime.

Estimated procurement fraud

2016/17		2017/18	
Volume	Value	Volume	Value
197	£6.2m	142	£5.2m

CIPFA is working with the Ministry of Housing, Communities and Local Government (MHCLG) in an effort to understand more about procurement fraud and how we can develop more solutions in this area.

The Fighting Fraud and Corruption Locally Strategy 2016 to 2019 (FFCL) recommends that local authorities have a procurement fraud map and use it to define the stages at which procurement fraud can happen. This enables authorities to highlight low, medium and high potential risks and inform risk awareness training for the future.

The Competition and Markets Authority has produced a free online tool that studies the data fed in against bidder behaviour and price patterns, allowing the public sector to identify areas of higher risk within procurement. It then flags areas where there could be potential fraud and which should be investigated.

Welfare assistance and no recourse to public funds

In 2016/17 the estimated number of fraud cases related to welfare assistance was 74, increasing to an estimated 109 in 2017/18.

The number of cases in no recourse to public funding cases has reduced to an estimated 334 in 2017/18. The value of the average fraud has more than halved, falling to an estimated £11,500 in 2017/18 from £28,100 in 2016/17. This is reflected by the overall decrease in total value of the fraud to an estimated £4.3m.

Economic and voluntary sector (grant fraud) and debt

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.

In the 2016/17 survey, there were 17 actual cases of grant fraud reported, which increased to 24 cases with an average estimated loss of £14,000 per case for 2017/18.

Debt had 38 reported cases in 2017/18 valued at over £150,000, with one case of insider fraud.

Payroll, expenses, recruitment and pension

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

Measuring the cost of these frauds can be quite difficult as they carry implications that include reputational damage, the costs of further recruitment and investigations into the motives behind the fraud. As a result, some organisations could be less likely to investigate or report investigations in these areas.

Payroll has the highest volume and value of fraud out of these four areas for 2017/18, and 51% of the cases investigated or prevented were reported as insider fraud.

Recruitment fraud has the second highest estimated average per case of £9,400. This is quite an interesting area for fraud practitioners given their work is often not recorded as a monetary value as the application is refused or withdrawn. So, it is more likely the figure represents the estimated cases of fraud that were prevented in 2017/18.

Estimated fraud

	2016/17		2017/18	
Type	**Volume**	**Value**	**Volume**	**Value**
Payroll	248	£1.0m	167	£1.01m
Expenses	75	£0.1m	34	£0.03m
Recruitment	46	£0.2m	52	£0.49m
Pension	228	£0.8m	164	£0.57m
Total	**597**	**£2.1m**	**417**	**£2.10m**

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

CIPFA estimates that across the UK there have been 23 cases of manipulation of data fraud, which is less than half of the estimated cases in 2016/17.

There were 257 estimated cases of mandate fraud in 2017/18 compared to 325 estimated cases detected or prevented in 2016/17.

These areas of fraudulent activity are on the decline and advice from organisations such as Action Fraud is useful.

Serious and organised crime

The survey question on serious and organised crime was requested by the Home Office and was included in the 2017/18 survey in order to help establish how it is being tackled by local authorities.

Organised crime often involves complicated and large-scale fraudulent activities which cross more than one boundary, such as payroll, mandate fraud, insurance claims, business rates and procurement. These activities demand considerable resources to investigate and require organisations to co-operate in order to successfully bring criminals to justice.

The 2017/18 survey identified 56 cases of serious and organised crime which was over double the figures reported in 2016/17 – 93% of these cases were reported by respondents from metropolitan unitaries. This shows that in the bigger conurbations, there is higher serious and organised crime activity (as one would expect) which is why some of the emerging counter fraud hubs are using predictive analytics to detect organised crime.

The responses indicate that organisations share a great deal of data both internally and externally – 34% share with the police and 16% share with similar organisations (peers). In addition, of the organisations that responded, 47% identified serious and organised crime risks within their organisation's risk register.

93%

the percentage of respondents who share data externally

> "Key data sharing partners are the police and other similar organisations."

Whistleblowing

This year, 74% of respondents said that they annually reviewed their whistleblowing arrangements in line with PAS 1998:2008 Whistleblowing Arrangements Code of Practice.

Of those questioned, 87% confirmed that staff and the public had access to a helpdesk and 71% said that the helpline conformed to the BS PAS 1998:2008. Respondents reported a total of 560 whistleblowing cases, made in line with BS PAS 1998:2008; representing disclosures in all areas, not just with regard to suspected fraudulent behaviour.

Resources and structure

Fraud teams are detecting and preventing more frauds despite reductions in their resources. It is therefore unsurprising to see 14% of respondents have a shared services structure; 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.

We have also seen a rise in authorities who have a dedicated counter fraud team – from 35% in 2016/17 to 51% in 2017/18. It is worth noting that there may be a potential bias in this figure as those who have a dedicated counter fraud team are more likely and able to return data for the CFaCT survey.

For organisations that do not go down the shared service route, the 2017/18 survey showed no growth in staff resources until 2020. This position would appear to be a change from 2016 when some respondents had hoped to increase their staff numbers.

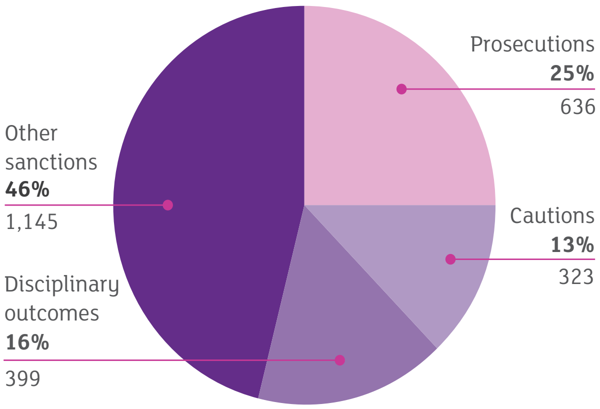
The number of available in-house qualified financial investigators has dipped slightly from 34% in 2016/17 to 31% in 2017/18. In addition, the percentage of authorities that do not have a qualified financial investigator increased from 35% in 2016/17 to 41% in 2017/18, which continues to show that resources for fraud are stretched.

Sanctions

Below are some of the key findings regarding sanctions:

- 636 prosecutions were completed in 2017/18 and of these, 15 were involved in insider fraud and 14 of those were found guilty
- the number of cautions increased from 9% in 2016/17 to 13% in 2017/18
- the percentage of other sanctions dropped from 53% in 2016/17 to 46% in 2017/18.

Outcome of sanctions



Fighting Fraud and Corruption Locally

The Fighting Fraud and Corruption Locally Strategy 2016–2019 (FFCL Strategy) 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 FFCL Strategy is available for councils to use freely so that everyone can benefit from shared good practice and is aimed at local authority leaders. 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.

The FFCL Board put forward specific questions to be included in the CFaCT survey to help measure the effectiveness of the initiatives in the FFCL Strategy and the responses are reflected in the diagrams below. The more confident respondents are about how fraud is dealt with in their organisation, the higher they marked the statement; the lower scores are towards the centre of the diagram.

Counter fraud controls by country

Over the past four years the same three issues have arisen when we have asked the question: *what are the three most significant issues that need to be addressed to effectively tackle the risk of fraud and corruption at your organisation?* These are:

- capacity
- effective fraud risk management
- better data sharing.

The FFCL's 34 point checklist covers each one of these areas and provides a comprehensive framework that can be used to address them. It can be downloaded from the CIPFA website.

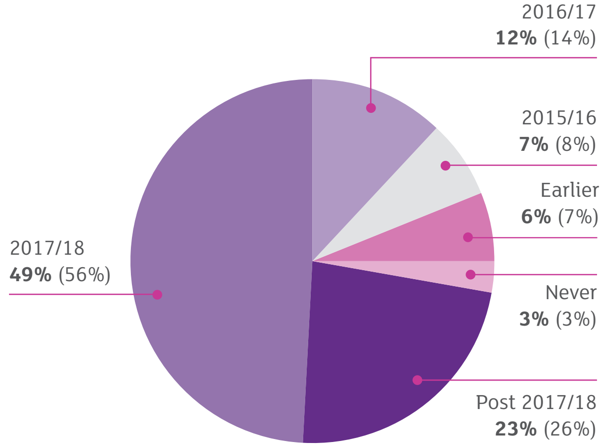
The FFCL Strategy recommends that:

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

Last year, 10% of respondents did not know when their counter fraud and corruption plan was last approved, and this year this has dropped slightly to 9%. Of those who responded to the survey, 56% agreed their counter fraud and corruption plan was approved within the last 12 months, and 21% stated that their plan would be approved post 2017/18.

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



CIPFA Recommends

- Public sector organisations need to remain vigilant and determined in identifying and preventing fraud in their procurement processes. Our survey showed this to be one of the prime risk areas and practitioners believe this fraud to be widely underreported.
- Effective practices on detecting and preventing adult social care fraud should be shared and adopted across the sector. Data matching is being used by some authorities with positive results.
- All organisations should ensure that they have a strong counter-fraud leadership at the heart of the senior decision-making teams. Fraud teams and practitioners should be supported in presenting business cases to resource their work effectively.
- Public sector organisations should continue to maximise opportunities to share data and to explore innovative use of data, including sharing with law enforcement.
- The importance of the work of the fraud team should be built into both internal and external communication plans. Councils can improve their budget position and reputations by having a zero-tolerance approach.

Appendix 1: Fraud types and estimated value/volume

The table below shows the types of frauds reported in the survey and the estimated volume and value during 2017/18.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	57,894	70.0%	£26.3m	8.72%	£455
Disabled parking concession	14,714	17.8%	£7.3m	2.43%	£499
Housing	4,722	5.7%	£215.7m	71.43%	£45,677
Business rates	1,373	1.7%	£10.4m	3.45%	£7,580
Other fraud	1,165	1.4%	£10.9m	3.61%	£9,355
Adult social care	737	0.9%	£6.7m	2.23%	£9,124
No recourse to public funds	378	0.5%	£4.3m	1.43%	£11,445
Schools frauds (excl. transport)	285	0.3%	£0.7m	0.24%	£2,537
Insurance claims	281	0.3%	£3.5m	1.15%	£12,317
Mandate fraud	257	0.3%	£6.6m	2.18%	£25,618
Payroll	167	0.2%	£1.0m	0.33%	£6,030
Pensions	164	0.2%	£0.6m	0.19%	£3,492
Procurement	142	0.2%	£5.2m	1.71%	£36,422
Welfare assistance	109	0.1%	£0.0m	0.01%	£337
Debt	91	0.1%	£0.4m	0.12%	£3,948
Children social care	59	0.1%	£0.9m	0.31%	£15,800
Economic and voluntary sector support	57	0.1%	£0.8m	0.26%	£13,467
Recruitment	52	0.1%	£0.5m	0.16%	£9,510
Expenses	34	0.0%	£0.2m	0.01%	£867
School transport	30	0.0%	£0.1m	0.04%	£3,857
Manipulation of data	23	0.0%	N/A	N/A	N/A
Investments	2	0.0%	£0.0m	–	–

Appendix 2: Methodology

This year's results are based on responses from 144 local authorities. An estimated total volume and value of fraud has been calculated for all local authorities in England, Wales, Scotland and Northern Ireland. Missing values are calculated according to the size of the authority. For each type of fraud, an appropriate universal measure of size has been selected such as local authority housing stock for housing frauds.

From the responses, the number of cases per each unit of the 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 £1m.

Appendix 3: Glossary

Adult social care fraud

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.

Blue Badge fraud

The Blue Badge is a Europe-wide scheme allowing holders of the permit to parking concessions which are locally administered and are issued to those with disabilities in order that they can park nearer to their destination.

Blue Badge fraud covers abuse of the scheme, including the use of someone else's Blue Badge, or continuing to use or apply for a Blue Badge after a person's death.

Business rates fraud

Business rates fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to separate between evasion and avoidance. Business rates fraud covers any fraud associated with the evasion of paying business rates including, but not limited to, falsely claiming relief and exemptions where not entitled.

Cautions

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.

Council tax fraud

Council tax is the tax levied on domestic properties and collected by district and unitary authorities in England and Wales and levying authorities in Scotland.

Council tax fraud is split into three sections.

- **council tax single person discount (SPD)** – where a person claims to live in a single-person household when more than one person lives there
- **council tax reduction (CTR) support** – where the council tax payer claims incorrectly against household income
- **other types of council tax fraud** – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

Debt fraud

Debt fraud includes fraudulently avoiding a payment of debt to an organisation, excluding council tax discount.

Disciplinary outcomes

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.

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.

Housing fraud

Fraud within housing takes a number of forms, including sub-letting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home, abandonment, or right to buy.

Insurance fraud

This fraud includes any insurance claim that is proved to be false, made against the organisation or the organisation's insurers.

Mandate fraud

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".

Manipulation of data fraud

The most common frauds within the manipulation of data relate to employees changing data in order to indicate better performance than actually occurred and staff removing data from the organisation. It also includes individuals using their position to change and manipulate data fraudulently or in assisting or providing access to a family member or friend.

No recourse to public funds fraud

No recourse to public funds prevents any person with that restriction from accessing certain public funds. A person who claims public funds despite such a condition is committing a criminal offence.

Organised crime

The Home Office defines organised crime as "including drug trafficking, human trafficking and organised illegal immigration, high value fraud and other financial crimes, counterfeiting, organised acquisitive crime and cyber crime".

Procurement fraud

This includes any fraud associated with the false procurement of goods and services for an organisation by an internal or external person(s) or organisations in the 'purchase to pay' or post contract procedure, including contract monitoring.

Right to buy

Right to buy is the scheme that allows tenants that have lived in their properties for a qualifying period the right to purchase the property at a discount.

Welfare assistance

Organisations have a limited amount of money available for welfare assistance claims so the criteria for applications are becoming increasingly stringent. Awards are discretionary and may come as either a crisis payment or some form of support payment.

Whistleblowing

Effective whistleblowing allows staff or the public to raise concerns about a crime, 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.

CIPFA The Chartered Institute of Public Finance & Accountancy

Registered office:
77 Mansell Street, London E1 8AN
T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700
www.cipfa.org

recycle

INVESTORS IN PEOPLE

2018/09

For publication

Treasury Management Strategy 2019/20

Meeting:	Standards & Audit Committee Council
Date:	6th February 2019 27th February 2019
Cabinet portfolio:	Deputy Leader
Report by:	Director of Finance & Resources

For publication

1.0 Purpose of report

1.1 To approve the Treasury Management Strategy Statement for 2019/20.

1.2 To approve the Capital Strategy Report for 2019/20.

1.3 To approve the Investment Strategy Report for 2019/20.

1.4 To approve the Minimum Revenue Provision (MRP) policy for 2019/20.

2.0 Recommendations

2.1 That the Treasury Management Strategy Statement be approved.

2.2 That the Capital Strategy Report, including the Prudential Code Indicators be approved.

2.3 That the Investment Strategy Report be approved.

2.4 That the Minimum Revenue Provision policy be approved.

3.0 Background

3.1 The key aims of the CIPFA 'Code of Practice for Treasury Management in the Public Services' (the Code) are:

a) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;
b) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities;
c) They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ.

3.2 CIPFA amended the Code in 2017 to take account of recent developments in the financial market place and the introduction of the Localism Act.

3.3 CIPFA also amended the Prudential Code for Capital Finance in Local Authorities in 2017, which now includes the requirement for the Council to produce a separate Capital Strategy.

3.4 In 2018 the Ministry of Housing, Communities and Local Government completely revised their statutory guidance on treasury management investments. This included the requirement for the Council to produce an Investment Strategy for non-treasury investments.

4.0 **Treasury Management Strategy**

4.1 The Treasury Management Strategy defines what categories of investments are to be used and the restrictions placed on their use. The primary objective is to protect capital and the maximisation of returns is secondary. However, the strategy allows sufficient flexibility for the Council to diversify into higher yielding asset classes where appropriate. The credit ratings of the approved counterparties for investments are regularly reviewed.

4.2 The Treasury Management Strategy Statement 2019/20 can be found at Appendix A.

5.0 **Capital Strategy Report**

5.1 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that provides a framework for self- regulation of capital spending.

5.2 The Code was revised in 2017 and introduced the requirement for the Council to produce a capital strategy, with the purpose of demonstrating that capital expenditure and investment decisions are taken in line with service objectives, and take account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy Report 2019/20 can be found at Appendix B.

5.3 To facilitate the decision making process, the Code also requires the Council to agree and monitor a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management.

5.4 **Capital Expenditure**

This prudential indicator is a summary of the Council's capital expenditure plans.

Capital expenditure £millions	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	5.5	15.7	7.1	1.9	1.0
HRA	14.1	20.2	20.2	18.1	15.0
Total	19.6	35.9	27.3	20.0	16.0

The table below shows how these plans are being financed by external sources such as grants and contributions, internal sources such as reserves and capital receipts and debt.

Capital expenditure £millions	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Financed by:					
External sources	3.7	7.7	1.0	0.7	0.7
Internal sources	14.5	24.3	24.9	19.3	15.3
Debt	1.4	3.9	1.4	0	0
Total	**19.6**	**35.9**	**27.3**	**20.0**	**16.0**

5.5 The Council's Borrowing Need - Capital Financing Requirement

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, and measures the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.

£millions	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Capital Financing Requirement					
CFR – General Fund	15.2	18.8	20.0	18.3	18.0
CFR – HRA	132.3	130.4	128.4	126.5	124.6
Total CFR	**147.5**	**149.2**	**148.4**	**144.8**	**142.6**
Movement in CFR	**-0.8**	**1.7**	**-0.8**	**-3.6**	**-2.2**

Movement in CFR represented by					
Net financing need for the year (above)	1.4	3.9	1.4	0	0
Less MRP/VRP and other financing movements	-2.2	-2.2	-2.2	-3.6	-2.2
Movement in CFR	**-0.8**	**1.7**	**-0.8**	**-3.6**	**-2.2**

5.6 Affordability Ratio

Estimates of financing costs to net revenue stream shows the trend in the cost of capital based on the programme against the net revenue stream (i.e. council tax for the General Fund and rent income for the Housing Revenue Account). The estimates of financing costs include current commitments and the proposals in the budget report.

%	2017/18 Actual	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
General Fund	2.54	1.38	1.95	2.54	2.57
HRA	17.97	18.73	18.30	17.57	17.12

The General Fund ratio decreases in 2018/19 to reflect an increase in investment income. This then increases in subsequent years to take account of the prudential borrowing required to finance the build of the new Saltergate Multi-Storey Car Park. The HRA ratio is fairly static due to both reducing financing costs and a reducing revenue stream as a result of the 1% per annum rent reduction requirement.

5.7 **External Debt**

The Code specifies a number of prudential indicators in respect of external debt. These are described below:

Limits to Borrowing Activity

- Operational Boundary - this is an estimate of the probable external borrowing during the year, it is not a limit and actual borrowing can vary for short periods during the year.

- Authorised Limit - represents the limit beyond which borrowing is not permitted. It includes estimates for long and short-term borrowing. The limit must be set and can be revised by the Council.

£millions	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate
Operational Boundary	135.3	135.6	133.6	131.7
Authorised Limit	145.4	142.5	140.5	138.5

5.8 **Borrowing Strategy** – The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. The Public Works Loans Board continues to be the main source of external long-term financing.

6.0 **Investment Strategy**

6.1 In 2018 the Ministry for Housing, Communities and Local Government's Investment Guidance was revised, and introduced the requirement for Authorities to produce an Investment Strategy Report.

6.2 The report focuses on non-treasury investments and sets out how these contribute towards the Council's core objectives to deliver services to residents, and the procedures for risk assessing potential investments.

6.3 The Investment Strategy Report 2019/20 can be found at Appendix C.

7.0 **Minimum Revenue Provision (MRP) Policy**

7.1 The Local Authorities (Capital Finance & Accounting) (England) Amendment Regulations 2008 require local authorities to agree a policy on the calculation of the Minimum Revenue Provision (MRP) for each financial year. The MRP is the amount the authority has to provide for the repayment of debt. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

7.2 The Minimum Revenue Provision (MRP) Policy 2019/20 can be found at Appendix D.

8.0 **Recommendations**

8.1 That the Treasury Management Strategy Statement be approved.

8.2 That the Capital Strategy Report, including the Prudential Code Indicators be approved.

8.3 That the Investment Strategy Report be approved.

8.4 That the Minimum Revenue Provision policy be approved.

9.0 **Reasons for recommendations**

9.1 To comply with regulations and recognised best practice.

Decision information

Key decision number	
Wards affected	
Links to Council Plan priorities	

Document information

Report author	**Contact number/email**
Karen Ludditt	karen.ludditt@chesterfield.gov.uk
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	

Appendices to the report	
Appendix A	Treasury Management Strategy Statement 2019/20
Appendix B	Capital Strategy Report 2019/20
Appendix C	Investment Strategy Report 2019/20
Appendix D	Minimum Revenue Provision (MRP) Policy 2019/20

Appendix A

Treasury Management Strategy Statement 2019/20

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in Appendix C to this report, the Investment Strategy.

External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee continues to reiterate that any further increases will be at a gradual pace and limited in extent.

Interest rate forecast: Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

Gilt yields and hence long-term borrowing rates have remained at low levels but some upward movement from current levels is expected based on Arlingclose's interest rate projections, due to the strength of the US economy and the ECB's forward guidance on higher rates. 10-year and 20-year gilt yields are forecast to remain around 1.7% and 2.2% respectively over the interest rate forecast horizon, however volatility arising from both economic and political events are likely to continue to offer borrowing opportunities.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.93%, and any new long term loans will be subject to analysis to determine the most cost effective source of borrowing.

Local Context

On 31st December 2018, the Authority held £130.9m of borrowing and £60.0m of investments. This is set out in further detail at page 9. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.18 Actual £000	31.3.19 Estimate £000	31.3.20 Forecast £000	31.3.21 Forecast £000	31.3.22 Forecast £000
General Fund CFR	15,143	18,842	20,033	18,329	17,987
HRA CFR	132,343	130,358	128,403	126,477	124,579
Total CFR	**147,486**	**149,200**	**148,436**	**144,806**	**142,566**
Less: External borrowing	-131,303	-129,336	-127,341	-125,373	-123,433
Internal borrowing	**16,183**	**19,864**	**21,095**	**19,433**	**19,133**
Less: Usable reserves	-51,440	-50,318	-48,590	-46,672	-46,438
Less: Working capital	-11,103	-15,183	-16,470	-13,747	-10,760
Investments	**46,360**	**45,637**	**43,965**	**40,986**	**38,065**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authorities General Fund CFR increases in the financial years to 2019/20 due to the capital programme. It then reduces in subsequent years as forecast capital receipts will be used to repay prudential borrowing. The Authority has a reducing HRA CFR. Investments are forecast to remain at £46m by 31/3/19 but will fall in subsequent years as useable reserves are utilised to finance the HRA capital and General Fund revenue budget.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation.

Borrowing Strategy

The Authority currently holds £129 million of loans, a decrease of £2 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does not expect to need to borrow in 2019/20. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2019/20 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In addition, the Authority may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)

- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Derbyshire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a joint and several guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £46 and £64 million, and similar levels are expected to be maintained in the forthcoming year.

Objectives: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2019/20, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2019/20. This is especially the case for the estimated £10m that is available for longer-term investment. A reducing proportion of the Authority's surplus cash remains invested in short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification will represent a change in strategy over the coming year.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved investment counterparties and limits

Credit rating	**Banks & Building Societies**	**Local Authorities**	**Government**	**Corporates**	**Registered Providers**
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£5m 2 years	n/a	£5m 50 years	£5m 2 years	£5m 2 years
AA+	£5m 2 years	n/a	£5m 25 years	£5m 2 years	£5m 2 years
AA	£5m 2years	n/a	£5m 15 years	£5m 2 years	£5m 2 years
AA-	£5m 2 years	n/a	£5m 10 years	£5m 2 years	£5m 2 years
A+	£5m 2 years	n/a	£5m 5 years	£5m 2 years	£5m 2 years
A	£5m 13 months	n/a	£5m 5 years	£5m 13 months	£5m 13 months
A-	£5m 6 months	n/a	£5m 5 years	£5m 6 months	£5m 6 months
None	n/a	£5m 2 years	£5m 5 years	n/a	n/a
Pooled funds		£12m per fund			

This table must be read in conjunction with the notes below

Credit rating: Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks secured: Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Registered providers: Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Pooled funds: Shares or units in diversified investment vehicles consisting of the any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Bond, equity, multi-asset and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Operational bank accounts: The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £50,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Investment limits: The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 3: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£7.5m per group
Any group of pooled funds under the same management	£12m per manager
Negotiable instruments held in a broker's nominee account	£15m per broker
Foreign countries	£10m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£5m in total
Loans to unrated corporates	£2m in total
Money market funds	£30m in total

Liquidity management: The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£150,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£100,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	10%	0%
12 months and within 24 months	10%	0%
24 months and within 5 years	10%	0%
5 years and within 10 years	25%	0%
10 years and within 25 years	50%	20%
25 years and above	70%	20%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2019/20	2020/21	2021/22
Limit on principal invested beyond year end	£10m	£10m	£10m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

Housing Revenue Account: On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account.

Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Director of Finance and Resources believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2019/20 is £0.4 million, based on an average investment portfolio of £45 million at an interest rate of 0.93%. For the General Fund the budget for debt interest paid in 2019/20 is £180k, based on an average debt portfolio of £3.1 million at an average interest rate of 5.8%. For the HRA the budget for debt interest paid in 2019/20 is £4.3 million, based on an average debt portfolio of £127 million at an average interest rate of 3.8%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance and Resources believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

Existing Investment & Debt Portfolio Position

	31/12/18 Actual Portfolio £m	31/12/18 Average Rate %
External borrowing:		
Public Works Loan Board	130.8	3.84
Total external borrowing	**130.8**	**3.84**
Treasury investments:		
Banks & building societies (unsecured)	20.1	0.77
Government (incl. local authorities)	20.0	0.88
Money Market Funds	6.5	0.75
Cash Plus Funds	13.4	0.92
Total treasury investments	**60.0**	**0.84**
Net debt	**70.8**	

This page is intentionally left blank

Appendix B

Capital Strategy Report 2019/20

Introduction

This capital strategy is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £20,000 for land and buildings and £10,000 for vehicles, plant and equipment are not capitalised and are charged to revenue in year.

In 2019/20, the Council is planning capital expenditure of £27.3m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
General Fund services	5.5	15.7	7.1	1.9	1.0
Council housing (HRA)	14.1	20.2	20.2	18.1	15.0
TOTAL	19.6	35.9	27.3	20.0	16.0

The main General Fund capital projects include the Enterprise Centre in respect of the Northern Gateway Scheme (£5.1m), Year 2 of the IT Transformation Project (£1m) and Disabled Facilities Grants (£0.9m). It is also likely that there will be slippage from the 2018/19 capital programme including the Northern Gateway Public Realm works and the 3G Pitches at Queens Park.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the building of 85 new homes over the forecast period, as well as enhancements to current housing stock.

Governance: Service managers must complete a Capital Growth Request Form in order to include projects in the Council's capital programme. The Finance and Performance Board appraises all requests based on a comparison of service priorities against financing costs and ongoing revenue commitments. Approval at Finance and Performance Board allows new schemes to be added to the latest version of the capital programme which is presented to Council for approval. Copies of all Council reports can be found on the Authority's website.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
External sources	3.7	7.7	1.0	0.7	0.7
Own resources	14.5	24.3	24.9	19.3	15.3
Debt	1.4	3.9	1.4	0	0
TOTAL	**19.6**	**35.9**	**27.3**	**20.0**	**16.0**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
General Fund	0.2	0.2	0.2	1.7	0.3
HRA	2.0	2.0	2.0	1.9	1.9

The Council's full minimum revenue provision statement can be found at Appendix D to this report.

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The General Fund CFR is expected to increase by £1.2m during 2019/20 and the HRA CFR is expected to decrease by £2.0m during the same period. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
General Fund services	15.2	18.8	20.0	18.3	18.0
Council housing (HRA)	132.3	130.4	128.4	126.5	124.6
TOTAL CFR	**147.5**	**149.2**	**148.4**	**144.8**	**142.6**

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £8.3m of capital receipts in the 2019/20 financial year as follows:

Table 5: Capital receipts in £ millions

	2017/18 actual	2018/19 forecast	2019/20 budget	2020/21 budget	2021/22 budget
General Fund Asset sales	0.2	1.9	4.6	3.4	0
Retained Right to Buy Receipts	4.2	3.9	2.1	1.1	0.3
Other HRA Asset sales	0.6	0.1	1.6	1.6	0
TOTAL	**5.0**	**5.9**	**8.3**	**6.1**	**0.3**

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

Due to decisions taken in the past, the Council currently has £131m borrowing at an average interest rate of 3.84% and £60m treasury investments at an average rate of 0.84%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 0.75%) and long-term fixed rate loans where the future cost is known but higher (currently 2.0 to 3.0%).

Projected levels of the Council's total outstanding debt (which comprises borrowing and transfers from local government reorganisation are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Debt	131.3	129.3	127.3	125.4	123.4
Capital Financing Requirement	147.5	149.2	148.4	144.8	142.6

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2018/19 limit	**2019/20 limit**	**2020/21 limit**	**2021/22 limit**
Authorised limit – borrowing	145.4	142.5	140.5	138.5
Operational boundary – borrowing	135.3	135.6	133.6	131.7

Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms can be invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2018 actual	**31.3.2019 forecast**	**31.3.2020 budget**	**31.3.2021 budget**	**31.3.2022 budget**
Near-term investments	36.4	35.6	34.0	31.0	28.1
Longer-term investments	10.0	10.0	10.0	10.0	10.0
TOTAL	**46.4**	**45.6**	**44.0**	**41.0**	**38.1**

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Finance and Resources and staff, who must act in line with the treasury management strategy approved by Council. Regular reports on treasury management activity are presented to Council. The Standards and Audit Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council may from time to time make investments to assist local public services, including making loans to local service providers and local small businesses to promote economic growth. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to generate a profit after all costs.

Governance: Decisions on service investments are made by the Director of Finance and Resources in consultation with the relevant Assistant Directors, and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Commercial Activities

With central government financial support for local public services declining, the Council may in the future decide to invest in commercial property purely or mainly for financial gain.

With financial return being the main objective, the Council would accept higher risk on commercial investment than with treasury investments. Further details can be found in the Investment Strategy at Appendix C to this report.

Liabilities

In addition to debt of £130m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £61.3m) This deficit is planned to be reduced to a break-even position over the next 19 years.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2017/18 actual	**2018/19 forecast**	**2019/20 budget**	**2020/21 budget**	**2021/22 budget**
Financing costs General Fund(£m)	278	149	206	256	246
Financing costs HRA (£m)	6,902	6,760	6,554	6,364	6,209
Proportion of net revenue stream General Fund	2.54%	1.38%	1.95%	2.54%	2.57%
Proportion of net revenue stream HRA	17.97%	18.73%	18.3%	17.57%	17.12%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Director of Finance and Resources is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council pays for staff to study towards relevant professional qualifications including CIPFA and AAT.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

This page is intentionally left blank

Appendix C

Investment Strategy Report 2019/20

Introduction

The Authority can invest its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £48m and £57m during the 2019/20 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2019/20 for treasury management investments are covered in Appendix A of this report.

Service Investments: Loans

Contribution: The Authority from time to time may lend money to local businesses, local charities or housing associations to support local public services and stimulate local economic growth.

The only service loan that the Council currently has outstanding is a £250,000 start-up loan that was made to the Derbyshire Building Control Partnership during the 2017/18 financial year. The Authority is a shareholder in the company, along with 5 other Derbyshire Local Authorities.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due.

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments. In the case of the loan to the Derbyshire Building Control Partnership each of the 5 other shareholders have guaranteed 1/6th of the loan, therefore the Council's maximum loss is limited to £41,666.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans, on a case by case basis. A thorough examination of the borrowers' accounts and/or business plans is undertaken by the Head of Finance and Resources. The services of external advisors will be sought for any areas requiring specific expertise.

Commercial Investments: Property

Contribution: The Council owns local industrial and commercial properties which are held primarily for service purposes such as economic regeneration, but which in addition generate a profit that will be spent on local public services. These properties can be split into three main categories: industrial units and trading estates, retail and office and undeveloped land. The majority of these properties have been held for a substantial period of time, more than 30 years in the case of some assets.

Table 1: Property held for investment purposes in £ millions

Type of Property	**Value in accounts 31.03.2018**
Industrial Units and Trading Estates	18.3
Retail and Office	17.4
Undeveloped Land	10.5
TOTAL	**46.2**

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase / construction cost.

A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2018/19 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. As the main purpose of owning these properties is for service reasons, the Authority does not need to rely on selling these assets for investment purposes, for example to repay capital borrowed.

Income: The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. The net amount of investment income (after operating expenses) received in 2017/18 was

£2.6m, this equated to 3.9% of all general fund income received and a similar amount is budgeted for in 2019/20. Income received is monitored on a regular basis and any expected shortfall would be reported in the revised budget

Risk assessment of future commercial investments: The Director of Finance and Resources will assess the risk of loss before entering into and whilst holding commercial property investments. Due consideration will be given to the risks relating to failure to create income/exposure to market changes, ongoing maintenance/management of the asset, possibility of arrears and exposure in one sector or locality. External advice will be sought for any investments requiring specific expertise.

Commercial property investments will be subject to a minimum expected yield of 10% and it must be demonstrated that the level of risk is acceptable for the expected yield by benchmarking against alternative investment products. Full contingency plans are required to be in place before entering into any commercial property investments, in the event that the investment will fail to meet the expected yield.

Capacity, Skills and Culture

Elected members and statutory officers: All investment and commercial decisions will be taken with the involvement of the Director of Finance and Resources, who will ensure that all elected members and other officers are fully aware of the risks involved and how the decision could change the overall risk exposure of the Authority. All decisions made will also have regard to the principles of the prudential framework and of the regulatory regime in which local authorities operate.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses.

Table 2: Total investment exposure in £millions

Total investment exposure	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	46.4	45.6	44.0
Service investments: Loans	0.25	0.2	0.15
Commercial investments: Property	46.2	46.2	46.2
TOTAL EXPOSURE	92.85	92.0	90.35

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. The Authority does not have any investments that could be described as being funded by borrowing. All of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 3: Investment rate of return (net of all costs)

Investments net rate of return	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Treasury management investments	0.84%	0.73%	0.93%
Service investments: Loans	4.85%	4.85%	4.85%
Commercial investments: Property	5.64%	5.64%	5.64%

Minimum Revenue Provision Statement 2019/20

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

> For capital expenditure incurred before 1st April 2008, MRP will be determined by charging the remaining expenditure over 40 years as the principal repayment on an annuity with an annual interest rate of 2%.
>
> For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 2%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

Capital expenditure incurred during 2019/20 will not be subject to a MRP charge until 2020/21.

No MRP will be charged in respect of assets held within the Housing Revenue Account, however a voluntary revenue provision will be charged at 1.5% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets.

	31.03.2019 Estimated CFR £	**2019/20 Estimated MRP/VRP £**
Capital expenditure before 01.04.2008	5,127,513	91,375
Unsupported capital expenditure after 31.03.2008	12,813,386	150,753
Total General Fund	**17,940,899**	**242,128**
Assets in the Housing Revenue Account	130,358,048	1,955,371
Total Housing Revenue Account	**130,358,048**	**1,955,371**

Agenda Item 11

Audit and Standards Committee Progress Report – January 2019

Chesterfield Borough Council

Year ending 31 March 2019

MAZARS

CONTENTS

Audit Progress

Appendix A – Communications and Timeline

Appendix B – Technical Update

AUDIT PROGRESS

Purpose of this report

This report provides the 6 February 2019 Audit and Standards Committee with an update on progress (at January 2019) in delivering our responsibilities as your external auditor for Chesterfield Borough Council We have also included at Appendix B our briefing for the Committee on recent publications which are relevant to your responsibilities.

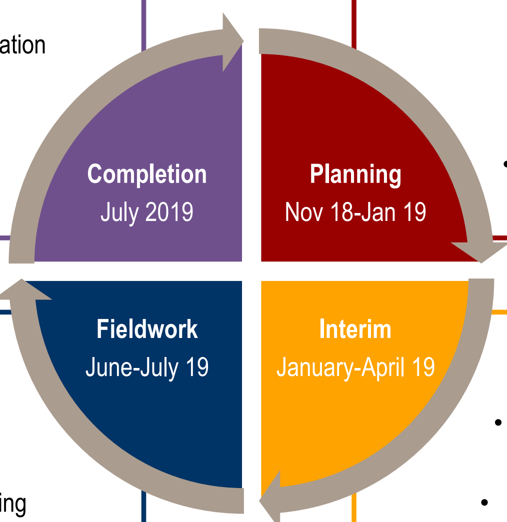
Audit progress

Our key audit stages are summarised in the diagram shown below, together with the key tasks. Upon completion of our initial planning and risk assessment, we will present our Audit Strategy Memorandum together with a further progress report to the April 2019 Audit and Standards Committee for discussion. This will set out the significant audit risks we have identified for the audit of the financial statements and our planned response. The Memorandum will also set out the results of our VFM risk assessment and any planned work required to address the risks identified.

We are currently at the Planning stage and this work is drawing to a close. There are no significant matters arising from our work that we are required to report to you at this stage. The interim audit which is due to start around 21 January 2019.

- Final review and disclosure checklist of financial statements
- Final partner review
- Agreeing content of letter of representation
- Reporting to A&S Committee
- Reviewing post balance sheet events
- Signing our opinion
- WGA and Audit Certificate

- Updating our understanding of the Council
- Initial opinion and value for money risk assessments
- Development of our audit strategy
- Agreement of timetables
- Preliminary analytical procedures
- Review of predecessor auditor's work



- Review of draft financial statements
- Reassessment of audit strategy, revising as necessary
- Delivering our planned audit testing
- Continuous communication on emerging issues
- Clearance meeting

- Documenting systems and controls
- Walkthrough procedures
- Controls testing, including general and application IT controls
- Early substantive testing of transactions
- Liaison with County Council auditors relating to IAS19 pension audit work

Audit approach and risks for the audit

The scope of the audit is unchanged from previous years and will meet the requirements of the NAO's Code of Audit Practice and relevant auditing standards. Our audit opinion work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those affected by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past. The overall risk profile for the audit is similar to that in the previous year and at this stage of our audit planning the expected significant audit risks are likely to again relate to:

- Management override of controls – this is an inherent risk we are required by auditing standards to address at all clients and reflected in our planned work on, for example, management judgements and estimates.
- Property valuations – these balances are material, valuations are provided by an expert valuer and there is a high degree of estimation uncertainty associated with those held at valuation.
- Defined benefit pension liability – the accounts contain material liabilities relating to the local government pension scheme and the Council uses an actuary to provide an annual valuation of these liabilities in line with the requirements of IAS 19 Employee Benefits. There is a high degree of estimation uncertainty associated with this valuation.

We will provide our updated risk assessment, and set out our planned response, in our draft Audit Strategy Memorandum.

AUDIT PROGRESS

Our VFM Conclusion risk assessment is in progress and is taking into account the NAO's latest guidance and requirements. At this stage we expect to carry out further work relating to the risks around the Council's medium term financial sustainability, which is a common risk for our audit clients in this sector and is a continuing risk which has been identified by your previous auditors. We will include more information on this risk and our planned response in the Audit Strategy Memorandum.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors. At this stage we expect the initial threshold for our overall materiality to be around £2.5m. We will confirm our planning materiality through our Audit Strategy Memorandum and update the Committee throughout the audit and in our Audit Completion Report on any changes required.

At this stage of the audit we are not planning any divergence from the scale fees set by PSAA as communicated in our fee letter of 25 April 2018. The scale fee set by PSAA is £40,383 (£52,445 2017/18). We have not been separately engaged by the Council to carry out any additional work outside of that in relation to our appointment by PSAA.

We are satisfied at this stage that we comply with the Financial Reporting Council's Ethical Standard and there are no matters or relationships which we believe may have a bearing on our independence or the objectivity of the audit team. We will further confirm this, or report any relevant matters, in our Audit Strategy Memorandum and our Audit Completion Report.

At Appendix A we have included a summary of the audit outputs we are required to share with you under auditing standards and our other reporting responsibilities, together with an indicative timeline for the audit.

Financial Reporting Workshops

These workshops have been scheduled for February 2019 and will provide our clients with an update on the latest developments as well as a forum for our clients to discuss emerging issues. Agenda items will include a revisit of 2017/18 issues including early close implications, changes in the 2018/19 Code and a forward look to future regulatory and policy changes. The East Midlands event is being held in Nottingham on 12 February 2019 and officers from the Council's finance team have been invited to attend.

Technical Update

Appendix B includes, for the Committee's information, summaries of recent technical and other sector publications (from Mazars, CIPFA and the NAO) which we believe are relevant to your responsibilities. The reports covered in this appendix, and the key messages, are summarised overleaf.

AUDIT PROGRESS (CONT.)

Mazars		
1	Horizon Scanning – Challenges and Opportunities in 2019	In November 2018 Mazars issued its annual Horizon Scanning document, which identifies the key topics which Councils' Internal Audit teams should be considering in preparing their Audit Plans.
Chartered Institute of Public Finance and Accountancy		
2	Measured resilience in English authorities	The Beta Version of CIPFA's Resilience Index, released to finance directors of English councils in December 2018, is a tool that enables authorities to view their positions, relative to others, on a range of measures linked to financial risk. This briefing note summarises key results from across the country, including a description of the measures chosen and their link to financial resilience.
3	Managing Risk in the Local Government Pension Scheme	CIPFA has worked with Aon to revise and update its 'Managing Risk in the Local Government Pension Scheme publication.
4	New Statement of Professional Practice on Ethics	The standard has been introduced by CIPFA to help provide clarity and support for members to meet global ethical standards and best practice, a matter of increasing important in the context of demanding public finance environments
5	Next steps on Sustainability and Transformation Plans (STPs)	CIPFA has raised concerns relating to the basis on which STPs are proceeding and it believes the NHS is taking a risk by initiating medium-term integrated care planning without first ensuring members of sustainability transformation partnerships (STPs) have a thorough understanding of their financial outlook.
6	CIPFA Fraud and Corruption Tracker (CFaCT) 2017/18	The 2017/18 report shows that fraud continues to pose a major financial threat to local authorities, with £302m detected or prevented by councils in 2017/18.
7	Statement on Borrowing in advance of need	This statement expresses CIPFA's concerns with Councils funding commercial investment through borrowing and reminds Councils of the relevant guidance and their responsibilities.
8	Implementation date for IFRS 16 Leases, CIPFA	CIPFA/LASAAC have confirmed that the effective date of implementation in the Code has been deferred for one year only to 1 April 2020, for alignment with the wider public sector.
National Audit Office		
9	A review of the role and costs of clinical commissioning groups	NAO highlights the importance of ensuring that the current restructuring of CCGs creates stable and effective organisations that support the long-term aims of the NHS.
10	Local auditor reporting in England 2018	The NAO reports that the number of NHS and local government bodies with weaknesses in their arrangements for delivering value for money is increasing
11	Local Authority Governance	In order to mitigate the growing risks to value for money in the sector MHCLG needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network.
12	Departmental Overview: Commercial and Contracting 2017-18	Using ten case studies from NAO's work over the last 18 months, this overview identifies the main things that government departments need to look out for as they develop commercial relationships with their suppliers.
13	Financial sustainability of local authorities 2018 visualisation	The NAO has made available its on-line 'interactive visualisations' which describe changes in local authorities' financial circumstances since 2010-11

APPENDIX A – COMMUNICATIONS AND TIMELINE

ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specify the matters we are required to communicate to you. These matters, and the reports we will issue, are as follows:

Required communication	Audit Strategy Memorandum April 2019 Audit and Standards Committee	Audit Completion Report July 2019 Audit and Standards Committee
Our responsibilities in relation to the audit of the financial statements and our wider responsibilities	✓	
Planned scope and timing of the audit	✓	
Significant audit risks and areas of management judgement	✓	
Our commitment to independence	✓	✓
Responsibilities for preventing and detecting errors	✓	
Materiality and misstatements	✓	✓
Fees for audit and other services	✓	
Significant deficiencies in internal control		✓
Significant findings from the audit		✓
Significant matters discussed with management		✓
Our conclusions on the significant audit risks and areas of management judgement		✓
Summary of misstatements		✓
Management representation letter		✓
Our proposed draft audit report		✓

Further outputs from our audit include:

- Audit and Standards Committee Progress Reports – January, April and June 2019
- Value for Money Conclusion – July 2019 (included within our Audit Completion Report and draft audit report)
- Audit Report on the 2018/19 Whole of Government Accounts return – July 2019
- Annual Audit Letter – September 2019

APPENDIX B – TECHNICAL UPDATE (CONT.)

Background

This appendix includes, for the Committee's information, summaries of recent technical and other sector publications (from Mazars, CIPFA and the NAO) which are relevant to your responsibilities. Please get in touch if there any reports which you would like to discuss further.

MAZARS

Horizon Scanning – Challenges and Opportunities in 2019

In November 2018 Mazars issued its annual Horizon Scanning document, which identifies the key topics which Councils' Internal Audit teams should be considering in preparing their Audit Plans. The document acknowledges that austerity continues to provide the framework for the many challenges that Councils face, and the increase in the number of authorities highlighted at risk of financial failure. The report highlights the £16b reduction of government funding to councils this decade and a warning of a £8b funding blackhole by 2025. Most of the key challenges highlighted in the document relate to budgets being squeezed and an increasing demand for services.
The report summarises the difficulties faced from financial and services pressures and other technological and demographic changes as a 'perfect storm'. The pressures are summarised as:

Austerity and the accompanying budget cuts:
A 49.1% real-terms reduction in central government funding from 2010/11 to 2017/18, slower than forecast increases in council tax and delays in the plans for local government to retain 100% of business rates, have severely reduced local authority income.

Changing and increasing demand pressures:
With an increasing and aging population, increased and more complex child referrals, an increase in homelessness and a growing demand for services for children with special education needs or disabilities, there have been increasing cost pressures on local authorities.

Demographic and technological changes:
Millennials now make up much of the workforce and have different values and work expectations to preceding generations, while technological changes continue at pace and bring different challenges to the workplace. The council of the future is a digital council that is more connected and integrated.

Other cost pressures:
The removal of the freeze on public sector pay increases, increased employer national insurance contributions, the national living wage and the apprenticeship levy have all put additional cost pressures on local authorities.

The report acknowledges the pressures on Internal Audit resources, the need in some cases for changes to the approaches for gaining sufficient assurances and the importance of organisations having assurance over the strength of key corporate and governance arrangements (for example ethics, governance, project management, change control and financial management).
The report identifies the current and emerging challenges under the following topic headings:

Financial resilience	Brexit
Adults and Children' social care funding gaps	Scrutiny
Pupil and SEN funding	Information Governance
Workforce	Single Client Record/Big Data
Apprenticeships	Digital Transformation
Off-payroll Engagement (IR35)	Cyber Security
Alternative Delivery Models	Deprivation of Liberty Safeguards
Supplier Resilience and Risk	Affordable New Homes
Care Homes	Crime
VAT – making tax digital	Fraud Issues/Business as Usual
Premises Health and Safety	Looking over the Horizon

The report is not widely published outside of Mazars' Internal Audit clients but has been shared with the Council's Internal Audit team and can be provided separately to the Audit and Standards Committee members if requested.

CIPFA

Measured resilience in English authorities (December 2018)

CIPFA's July 2018 consultation document outlined a proposed methodology for its Resilience Index, and illustrated how the results might be displayed in practice. The Beta Version of CIPFA's Resilience Index, released to finance directors of English councils in December 2018, is a tool that enables authorities to view their positions, relative to others, on a range of measures linked to financial risk. This briefing note summarises key results from across the country, including a description of the measures chosen and their link to financial resilience. The tool is a test version and CIPFA will be running a series of development workshops with finance directors across the country in 2019 ahead of the release of a final version, when CIPFA also aims to publish a new Financial Management Code. Following official publication of local authority revenue and expenditure outturn data in November 2019, the Index will be made publicly available online.

The briefing can be found at the following link:
https://www.cipfa.org/policy-and-guidance/reports/measured-resilience-in-english-authorities

Managing Risk in the Local Government Pension Scheme (December 2018)

CIPFA has worked with Aon to revise and update its 'Managing Risk in the Local Government Pension Scheme publication. The guidance explores how risk manifests itself across the broad spectrum of activities that constitute LGPS financial management and administration. The publication then explains how, by using established risk management techniques, these risks can be identified, analysed and managed effectively.

A briefing on the updated publication can be found at the following link:
https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-says-lgps-funds-need-to-take-the-right-view-of-risk

New Statement of Professional Practice on Ethics (November 2018)

Coming into effect on 1 November 2018, the new SOPP on ethics aligns with the latest edition of the International Ethical Standards Board of Accountants Code (the Code) released in April 2018. The standard is accompanied by updated guidance and has been introduced by CIPFA to help provide clarity and support for members to meet global ethical standards and best practice, a matter of increasing important in the context of demanding public finance environments. The five fundamental principles detailed in the updated Code are to be upheld by all CIPFA members, and include integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. CIPFA had earlier in the year carried out a member survey and found almost 60% of public sector finance professionals have come under pressure to act unethically at least once in their career. By updating the SOPP to the latest Code based on internationally recognised principles, and by providing relevant modern case studies, CIPFA wants to ensure that every one in public sector finance is supported to act ethically in their roles, and in line with the public good.

The Statement can be found at the following link:
https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-introduces-new-statement-of-professional-practice-(sopp)-on-ethics

Next steps on Sustainability and Transformation Plans (STPs) (October 2018)

CIPFA has raised concerns relating to the basis on which STPs are proceeding. It believes the NHS is taking a risk by initiating medium-term integrated care planning without first ensuring members of sustainability transformation partnerships (STPs) have a thorough understanding of their financial outlook. CIPFA spokesman said "It would appear that lessons have not been learnt from the 'difficult birth' of STPs, where local government and other partner engagement was limited due to the tight timescales set for plans. Although it is good to see the approach setting out calls for wide engagement and a place-based approach, the timescales and uncertainty involved mean they risk making the same mistakes all over again. There must be a considered and methodical approach to this kind of planning work."

The CIPFA statement can be found at the following link:
https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/nhs-must-learn-from-mistakes-of-past-on-stps

CIPFA

CIPFA Fraud and Corruption Tracker (CFaCT) 2017/18 (October 2018)

The 2017/18 report shows that fraud continues to pose a major financial threat to local authorities, with £302m detected or prevented by councils in 2017/18. While this was £34m less than last year's total, the report revealed an overall increase in the number of frauds detected or prevented – up to 80,000, from the 75,000 cases found in 2016/17. Among these cases there are reminders of some of the challenges being faced by local authorities, with the number of serious or organised crime cases doubling to 56, and a significant increase in the amount lost to business rates fraud, which jumped to £10.4m in 2017/18 from £4.3m in 2016/17.

The CFaCT report can be found at the following link:
https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/local-councils-detect-or-prevent-£302m-in-fraud-in-2017-18

Borrowing in advance of need (October 2018)

CIPFA's CIPFA Chief Executive and Chair of the CIPFA Treasury and Capital Management Panel issued a statement on Borrowing in Advance of Need and Investments in Commercial Properties. The statement reminds users of CIPFA's Prudential Code that the Code sets out clearly that the prime policy objective of a local authority's treasury management investment activities is the security of funds, and that a local authority should avoid exposing public funds to unnecessary or unquantified risk. Both the Code and the Statutory Guidance on Local Government Investments issued by the Ministry for Housing, Communities and Local Government set out that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Relevant statutory provisions also apply in the devolved administrations. CIPFA considers that where the scale of commercial investments including property are not proportionate to the resources of the authority, that this is unlikely to be consistent with the requirements of its Prudential Code and the Treasury Management Code. CIPFA shares the concerns raised in relation to the recent continuation and (in a small number of cases) acceleration of the practice of borrowing to invest in commercial property. CIPFA will issue more guidance which makes it clear that these investment approaches are not consistent with the requirements of fiscal sustainability, prudence and affordability. CIPFA's guidance will also set out the substantial risks which are being incurred by such practices. In the meantime, local authorities are advised to have specific regard to the requirements to compile a capital strategy. Local authorities in England are also directed to have regard to the Statutory Investment Guidance the informal commentary to which cautions local authorities against becoming dependent on commercial income; taking out too much debt relative to net service expenditure; and taking on debt to finance commercial investments.

The Statement can be found at the following link:
https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/statement-from-cipfa-on-borrowing-in-advance-of-need-and-investments-in-commercial-properties

Implementation date for IFRS 16 Leases, CIPFA (December 2018)

CIPFA/LASAAC have confirmed that the effective date of implementation in the Code has been deferred for one year only to 1 April 2020, for alignment with the wider public sector.

The Statement can be found at the following link:
https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board

APPENDIX B – TECHNICAL UPDATE (CONT.)

National Audit Office (NAO)

A review of the role and costs of clinical commissioning groups (December 2018)

Clinical commissioning groups (CCGs) are clinically-led statutory bodies that have a legal duty to plan and commission most of the hospital and community NHS services in the local areas for which they are responsible. They were established as part of the Health and Social Care Act in 2012.

Since commissioning was introduced into the NHS in the early 1990s, there have been frequent changes to the structure of commissioning organisations. This looks set to continue, with the role of CCGs evolving as the NHS pursues a more integrated system across commissioners and providers. Consequently, there are likely to be more CCG mergers and increased collaborative working between CCGs and their stakeholders, for example healthcare providers and local authorities. The four Derbyshire CCGs are going through a merger process and have already appointed joint Chief Executive and Chief Financial Officers. They are therefore a major set of partners for the local authorities in relation to the County's health and social care services, including housing and other needs.

This NAO review sets out:

- changes to the commissioning landscape before CCGs were established;
- the role, running costs and performance of CCGs; and
- the changing commissioning landscape and the future role of CCGs.

NHS England's assessment of CCGs' performance shows a mixed picture, with 42% (87 of 207) rated either 'requires improvement' or 'inadequate', with 24 deemed to be failing, or at risk of failing. Many CCGs are struggling to operate within their planned expenditure limits despite remaining within their separate running cost allowance. Attracting and retaining high-quality leadership is an ongoing issue.

There has been a phase of CCG restructuring with increased joint working and some CCGs merging. If current trends continue, this seems likely to result in fewer CCGs covering larger populations based around STP footprints. This larger scale is intended to help with planning, integrating services and consolidating CCGs' leadership capability. However, there is a risk that commissioning across a larger population will make it more difficult for CCGs to design local health services that are responsive to patients' needs, one of the original objectives of CCGs.

CCGs have the opportunity to take the lead in determining their new structures. NHS England is expected to set out its vision for NHS commissioning in its long-term plan for the NHS to be published in December 2018. NHS England has said it will step in where CCGs diverge from its vision of effective commissioning. However, it has not set out fully the criteria it will use to determine when to step in. NAO's previous work on the NHS reforms brought in under the Health and Social Care Act 2012 highlighted the significant upheaval caused by major organisational restructuring. NAO highlights the importance of ensuring that the current restructuring of CCGs creates stable and effective organisations that support the long-term aims of the NHS. NHS commissioning needs a prolonged period of organisational stability, which would allow organisations to focus on transforming and integrating health and care services rather than on reorganising themselves.

The Audit and Standards Committee may wish to clarify with management what progress the Derbyshire CCGs are making in relation to their joint working and their collaborative working with the Council.

The full report can be found at the following link:
https://www.nao.org.uk/report/a-review-of-the-role-and-costs-of-clinical-commissioning-groups/

APPENDIX B – TECHNICAL UPDATE (CONT.)

<u>National Audit Office (NAO)</u>

Local auditor reporting in England 2018 (January 2019)

Each year, local auditors give an opinion on whether local public bodies produce financial statements that comply with reporting requirements and are free from material errors and conclude whether local public bodies have arrangements to manage properly their business and finances (the conclusion on arrangements to secure value for money).

Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors. This report:

- provides an overview of the work of local auditors
- describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework; and
- summarises the main findings reported by local auditors in 2017-18.
- considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015; and
- highlights differences between the local government and NHS sectors.

The NAO found that the number of NHS and local government bodies with weaknesses in their arrangements for delivering value for money is increasing. Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. Only three of the bodies (5%) NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses auditors reported. This suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

The number of qualified conclusions on local arrangements to secure value for money is high and increasing. The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is high. This is regarded as a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

NAO state that local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Government departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is regarded as serious, with trend lines pointing downwards.

The full report can be found at the following link:
https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/

APPENDIX B – TECHNICAL UPDATE (CONT.)

National Audit Office (NAO)

Local Authority Governance (January 2019)

NAO's report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable. The report addresses this question in three separate parts:
Part One examines the pressures on the local governance system;
Part Two explores the extent to which local governance arrangements function as intended; and
Part Three assesses whether the Department is fulfilling its responsibilities as steward of the system.

The report finds that Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (MHCLG) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network.

The full report can be found at the following link:
https://www.nao.org.uk/report/local-authority-governance-2/

APPENDIX B – TECHNICAL UPDATE (CONT.)

National Audit Office (NAO)

Departmental Overview: Commercial and Contracting 2017-18

Using ten case studies from NAO's work over the last 18 months, this overview identifies the main things that government departments need to look out for as they develop commercial relationships with their suppliers. Overall the NAO found that:

- Many problems arise before procurement begins. Good contracting requires getting the basics right at the start by:
- Understanding what you are trying to contract out and the risks attached
- Understanding, by both sides carrying out due diligence, who is best placed to take on those risks
- Ensuring that the contract correctly allocates risks and responsibilities to those best able to manage them.
- There is a need for better performance measures and use of intelligence in managing contracts:
- Commercial capability is improving but contract management remains weak
- Performance measures need to be established at the start and assess quality as well as cost to ensure that the contract delivers value for money.
- Government departments need good intelligence on their suppliers to help them manage contracts effectively
- Government has had mixed results in managing markets, and to ensure that risks are managed and value for money is delivered it needs to develop a more interventionist approach to the markets it has created.

The full report can be found at the following link:
https://www.nao.org.uk/report/departmental-overview-commercial-and-contracting-2017-18/

Financial sustainability of local authorities 2018 visualisation

The NAO has made available its on-line 'interactive visualisations' which describe changes in local authorities' financial circumstances from 2010-11 to 2016-17. They can be used to explore broad trends identified in their report Financial sustainability of local authorities 2018 in order to gain a more detailed understanding of the experiences of individual local authorities. The data shows changes in income and spending alongside analysis of factors such as budget overspends and use of reserves.

The data and the original March 2018 report can be found at the following links:

https://www.nao.org.uk/highlights/financial-sustainability-of-local-authorities-2018-visualisation/
https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/

CONTACTS

Director
Mark Surridge

Mobile: 0787 597 4291
Email: mark.surridge@mazars.co.uk

Senior Manager
Mike Norman

Mobile: 0790 998 4151
Email: michael.norman@mazars.co.uk