



Please ask for Joel Hammond-Gant  
Direct Line: 01246 34 5273  
Email [committee.services@chesterfield.gov.uk](mailto:committee.services@chesterfield.gov.uk)

The Chair and Members of Standards  
and Audit Committee

31 January 2018

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 7 FEBRUARY 2018 at 2.00 pm in Committee Room 1, Town Hall, Rose Hill, Chesterfield, S40 1LP, 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. 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 Paragraphs 1 and 3 of Part 1 of Schedule 12A of the Act".

Part 2 (Non-public information)

5. Summary of Internal Audit Reports Issued 2017/18 (Pages 11 - 50)

Chesterfield Borough Council, Town Hall, Rose Hill, Chesterfield S40 1LP

Telephone: 01246 345 345, Text: 07960 910 264, Email: [info@chesterfield.gov.uk](mailto:info@chesterfield.gov.uk)

[www.chesterfield.gov.uk](http://www.chesterfield.gov.uk)

6. Standards of Conduct - Annual Report 2017/18 (Pages 51 - 60)
7. Re-admission of the Public

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

Part 1 (Public information)

8. Treasury Management Strategy 2018/19 (Pages 61 - 94)
9. CIPFA Fraud and Corruption Strategy Survey 2017 (Pages 95 - 122)
10. Implementation of the Annual Governance Statement Action Plan 2016/17 (Pages 123 - 134)
11. Constitution Updates (Pages 135 - 150)

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Randy', with a stylized flourish at the end.

Local Government and Regulatory Law Manager and Monitoring Officer

**STANDARDS AND AUDIT COMMITTEE****Wednesday, 22nd November, 2017**

Present:-

Councillor Rayner (Chair)

Councillors Caulfield  
Derbyshire  
HollingworthCouncillors Tidd  
Bean

\*Matters dealt with under the Delegation Scheme

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

No declarations of interest were received.

**21 APOLOGIES FOR ABSENCE**

An apology of absence was received from Councillor Diouf.

**22 MINUTES****RESOLVED –**

That the Minutes of the Standards and Audit Committee meeting held on 20 September, 2017 be approved as a correct record.

**23 RESPONSE TO DEPARTMENT FOR COMMUNITIES AND LOCAL  
GOVERNMENT CONSULTATION ON UPDATING  
DISQUALIFICATION CRITERIA FOR LOCAL AUTHORITY MEMBERS**

The Cabinet Member for Governance attended for this item.

The Assistant Director – Policy and Communications presented a report summarising the Government's proposed revisions to the criteria for disqualifying individuals from standing for, or holding office as, a local authority member, directly-elected mayor or member of the London Assembly.

The Committee was informed that the consultation had not proposed to change the disqualification criteria for Police and Crime Commissioners, and that the proposals would not apply retrospectively after the changes are in force.

It was reported that there is a proposal to bar any person subject to sex offender notification requirements from standing for election or holding office, for a period of time until they are no longer subject to notification requirements.

The Committee was advised of the proposal to bar any person subject to an anti-social behaviour sanction issued by a Court from standing for election or holding office. It was noted that the proposal did not extend to closure orders or dispersal orders.

The Assistant Director – Policy and Communications outlined the proposed responses of the Council to the Government’s formal consultation, as set out in Section 7 of the officer’s report.

The Committee considered that the following issues should also be referred to in the response:

- That further clarification should be given over the type of injunction that would lead to barring. Some injunction, for example those arising from a neighbour dispute, might not be significant enough to warrant barring.
- That clarification is needed on how a local authority is to be informed of any relevant sanction, and whether the responsibility for determining this would be with the prospective member, their political group, or the local authority.
- That further guidance is needed as to the effect of, and consequences of, barring during the term of a Councillor’s office.

**\* RESOLVED –**

That the proposed consultation responses, as amended by the Committee, be submitted to the Department for Communities and Local Government after further consideration by the Cabinet Member for Governance.

## 24 **RISK MANAGEMENT STRATEGY AND ANNUAL REVIEW**

The Director of Finance and Resources submitted a report on risk management developments during the year 2016/17 and recommended for approval the updated Risk Management Policy, Strategy and Corporate Risk Register for 2017/18.

Risk Management Training workshops had been carried out by the Council's insurers of its risk management arrangements. The outcomes of the workshops were reflected in the updated Service Risk Registers and Corporate Risk Register.

The Committee were informed of the key risks that the Council had faced during 2016/17, as set out in paragraph 4.6 of the officer's report, and were advised of the work undertaken to mitigate the risks.

The Director of Finance and Resources agreed to consider adding Welfare Reform to the Corporate Risk Register.

### **\* RESOLVED –**

1. That the progress made on developing the Council's approach to risk management during 2016/17, be noted.
2. That the Committee recommends that full Council approve the Risk Management Policy, Strategy and the Corporate Risk Register for 2017/18.

## 25 **NATIONAL FRAUD INITIATIVE**

The Internal Audit Consortium Manager presented a report summarising the results of the 2016/17 National Fraud Initiative for Chesterfield Borough Council.

It was reported that no cases of fraud or errors were identified.

### **\* RESOLVED –**

That the report be noted.

26 **SUMMARY OF INTERNAL AUDIT REPORTS SUBMITTED 2017/18 - NOVEMBER 2017**

The Internal Audit Consortium Manager presented a report summarising the internal audit reports issued during the period 26 August – 20 October, 2017 in respect of reports relating to the 2017/18 internal audit plan.

It was noted that of the six reports issued during the stated time period, one was given 'Substantial Assurance', two were given 'Reasonable Assurance', and three were given 'Limited Assurance'. There were no reports given the 'Inadequate Assurance' classification.

The Committee welcomed the Licensing Manager who provided an update on the progress of implementing the recommendations in the 'Taxi Licensing' audit report, issued on 8 September, 2017.

It was advised that a monthly checking system had been put in place to monitor the taxi drivers that are due to update their Disclosure and Barring Services (DBS) record check. It was noted that reminder letters are issued at regular stages and that a final letter is sent 2 days following a missed submission. This confirms that failing to submit an updated DBS check will result in being summoned before the Appeals and Regulatory Committee.

The Committee heard that training had been made mandatory for all current and new taxi drivers in Chesterfield, with those failing to attend training at risk of being called to the Appeals and Regulatory Committee. There had been an increase in the number of taxi drivers that had received training and information on safeguarding, with over half of the fleet having been trained as at 22 November, 2017.

The Licensing Manager informed the Committee that the training package created by Chesterfield Borough Council had been shared and used by other local authorities within Derbyshire.

It was reported that discussions are ongoing with neighbouring authorities in relation to undertaking joint training and sharing best practice. Online training for taxi drivers had been considered an option for future training requirements.

The Committee thanked the Licensing Manager for attending.

The Committee welcomed the Assistant Director – Customers, Commissioning and Change, to provide an update on the progress of implementing the recommendations in the Data Protection report, issued on 22 September, 2017.

It was reported that while some Council staff had not yet completed the mandatory training modules on data protection, measures had been put in place to increase the completion rate, including the creation of corporate email accounts and logins for those not regularly using the Council IT systems. Additional resources had been provided, including an Information Assurance Manager and Information Rights Officer, to ensure that improvements could be made in relation to data protection.

In addition, discussions had been held with a number of services to ensure that staff received the adequate time in the workplace to complete their mandatory training, or additional pay extra hours incurred outside of their standard working hours.

It was advised that disciplinary procedures could be used in the event that some staff members did not undergo the mandatory data protection training modules.

The Committee heard that the Council is confident that all recommended remedial work will be completed to allow a timely Public Services Network submission by January, 2018, and that it would work towards meeting the General Data Protection Regulations requirements.

The Committee agreed to continue to monitor this matter and thanked the Assistant Director – Customers, Commissioning and Change Manager for attending.

The Internal Audit Consortium Manager presented to the Committee the main findings and key issues relating to the 'Queen's Park Sports Centre' audit report, issued on 21 August, 2017.

It was reported that since the Health and Wellbeing Manager post had become vacant, the Executive Director, James Drury, had worked closely with the Interim Leisure Services Manager to ensure that recommendations are being worked on.

The Committee heard that a total of 14 recommendations remained outstanding as at 22 November, 2017, including a number of

recommendations from the previous audit that had not been fully implemented.

**\* RESOLVED –**

1. That the progress reported be noted.
2. That the other managers responsible for outstanding internal audit recommendations arising from 'Limited Assurance' reported be asked to attend the next meeting of the Standards and Audit Committee on 7 February, 2018 to report progress.

**27 ANNUAL AUDIT LETTER 2016/17**

Mr Tony Crawley of KPMG presented the Annual Audit Letter for the year 2016/17.

The Annual Audit Letter summarised the outcome from the external auditor's work at the Council during 2016/17, 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 2016/17 as £52,445 excluding VAT.

It also gave a summary of reports issued during 2017, which included:

- Certification of Grants and Returns;
- External Audit Plan;
- Auditor's Report;
- Report to Those Charged with Governance; and
- Annual Audit Letter for 2016/17.

It was noted that the Annual Audit Letter would be considered at the meeting of full Council on 13 December, 2017.

**\* RESOLVED –**

That the Annual Audit Letter for 2016/17 be received.



28 **MINOR CHANGES TO DELEGATION SCHEME AND PLANNING COMMITTEE PROCEDURES**

The Monitoring Officer submitted a report to seek member approval for updates to the Council's Constitution, in relation to the Delegation Scheme and Planning Committee Procedures.

It was noted that the agreed changes detailed in the report had been agreed by the Council's Planning Committee on 30 October, 2017 and the Cabinet Member for Economic Growth on 10 November, 2017.

**\* RESOLVED –**

That the following proposed changes to Part 3 of the Constitution be approved:

1. That the proposed amendments to P140D of the delegation scheme, be approved and the Constitution updated accordingly.
2. That the proposed amendment to the delegation scheme at P760D concerning Environmental Impact Assessment Development, be approved and the Constitution updated accordingly.

This page is intentionally left blank

## For publication

### **Summary of Internal Audit Reports Issued 2017/18**

---

Meeting:	Standards and Audit Committee
Date:	7th February 2018
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 21st October 2017 – 5th January 2018 in respect of reports issued relating to the 2017/18 internal audit plan.

#### **2.0 Recommendations**

- 2.1 That the report be noted.
- 2.2 That Members' decide if they wish to call in any Officers to the next meeting to provide a further update in respect of the "Limited" assurance reports.

#### **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 21st October 2017 to 5th January 2018, for audits included in the 2017/18 internal audit plan.

- 3.3 As requested previously, Members have been provided with copies of reports that have been issued with a limited or inadequate audit opinion. This period, 2 limited assurance internal audit reports have been issued – Section 106 and Network Security. A summary of the key issues for each of these reports is detailed in Appendix B.
- 3.4 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.
- 3.5 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.

<b>Assurance Level</b>	<b>Definition</b>
<b>Substantial Assurance</b>	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
<b>Reasonable Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>Inadequate Assurance</b>	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.

- 3.6 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.

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

#### **4.0 Alternative options and reasons for rejection**

4.1 The report is for information.

#### **5.0 Recommendations**

5.1 That the report be noted.

5.2 That Members' decide if they wish to call in any Officers to the next meeting to provide a further update in respect of the "Limited" assurance reports.

#### **6.0 Reasons for recommendations**

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**

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

#### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
<b>Jenny Williams – Internal Audit Consortium Manager</b>	<b>01246 345468  Jenny.williams@chesterfield.gov.uk</b>
<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	

<b>Appendices to the report</b>	
Appendix A	Summary of Internal Audit Reports Issued
Appendix B	Summary of the key issues in relation to reports given a "limited assurance" opinion.
Appendix C	ICT Network Security (Limited Assurance Report)
Appendix D	Section 106/CIL (Limited Assurance Report)

**Chesterfield Borough Council – Internal Audit Consortium**

**Report to Standards and Audit Committee**

**Summary of Internal Audit Reports Issued 2017/18– Period 21st October 2017 – 5th January 2018**

Report Ref No.	Report Title	Scope & Objectives	Overall Opinion	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
17	Section 106/CIL Follow up	To ensure that previous recommendations have been implemented	Limited /reasonable	20/10/17	10/11/17	28/12/17	7M	7
18	Housing Benefits and Council Tax Support	To ensure that benefits are paid promptly and accurately	Substantial	01/11/17	22/11/17	N/A	0	0
19	ICT Network Security	To review and assess the controls in place	Limited	15/11/17	6/12/17	16/1/18	8 (2H 3M 3L)	8
20	Treasury Management Investments and Loans	To ensure that all loans and investments are made in line with an approved strategy	Substantial	17/11/17	8/12/17	N/A	0	0
21	Car Parks Income	To ensure that all income is collected and banked	Reasonable	8/12/17	4/1/18	3/1/18	8 (1H 3M 4L)	8

Report Ref No.	Report Title	Scope & Objectives	Overall Opinion	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
22	Housing Rents Accounting System	To ensure that all housing rents are billed and collected correctly and that there are debt collection procedures in place	Reasonable	19/12/17	15/01/18	15/01/18	9 (4M 5L)	9



## **Summary of the key issues in relation to reports given a "limited assurance" opinion.**

### **Section 106**

The main findings were that:-

- The number of section 106 agreements has drastically decreased however of the 3 sampled, none had been properly recorded in terms of the details required or timeliness of input. There is a risk that section 106 agreements are not adequately monitored for either receipt of income or completion of projects by the due date.
- A lack of liaison between Planning and Accountancy as to when payments are received
- Follow up action is still required on a number of outstanding section 106 obligations
- Reconciliations are not undertaken between the accountancy and Uniform systems
- No process for reminding departments in respect of monies due to be spent – this could lead to a risk of the funds being clawed back
- An annual report has not been presented to the Planning Committee providing details of all Section 106 agreements

The Economic Growth Manager will be attending the meeting to provide a further update.

### **ICT Network Security**

The main points arising were:-

- ICT policies have not been approved and conveyed to staff
- There is no system in place to monitor the transfer of data to unsecure e mail addresses
- Sophos End Point Protection is the main protection for the council computers used by employees. This is installed on all computers within the council however -
  - It was evidenced that there were 244 machines with errors on the Sophos software, these have not been reviewed.
  - At the time of the audit there was a total of 96 machines without protection from Sophos across the council, these include printers, scanners and incompatible servers (e.g. Linux). it was established that a review of this list had not been completed recently to ensure that no computers were on the list.
  - The only way to establish that a machine is not protected is by a reconciliation of current machines to protected machines. It was established that a reconciliation does not take place
  - The management software keeps a record of machines that have missed updates however it was established that a machine that had not been updated since June 2017 was not recorded on this list.
- At the time of the audit only 43% of users had completed the on line IT security training
- Server room door codes had not been changed for 2 years

The Customers, Commissioning and Change Manager will be attending the meeting to provide a further update.

Appendix C

**Bolsover, Chesterfield and North East Derbyshire District Councils'**

**Internal Audit Consortium**

**Internal Audit Report**

<b>Authority:</b>	<b>Chesterfield Borough Council</b>
<b>Subject:</b>	<b>ICT Network Security</b>
<b>Date of Issue:</b>	<b>15<sup>th</sup> November 2017</b>

<b>Report Distribution:</b>	<b>Customers commissioning and change Manager (CBC) Information Assurance Manager (CBC) Client Officer (CBC) ICT Projects Manager (Arvato) Site Director (Arvato)</b>
-----------------------------	---



**CHESTERFIELD**  
BOROUGH COUNCIL



# **INTERNAL AUDIT REPORT**

## **ICT and E-Government Service**

### **Introduction**

A routine review of the Council's IT security and disaster recovery procedures has recently been carried out. It should be noted that this is inclusive of CBC and Arvato responsibilities and hence the recommendations made may require liaison between both parties or may be the sole responsibility of a single party as highlighted in the report and implementation schedules.

### **Scope and Objectives**

The scope and objectives of the audit were to review the controls in place in respect of:

- Action taken on previously agreed recommendations
- Framework and procedures
- Network access controls and security
- Security testing and incident management
- Data transfer
- Protection against malicious software
- Physical security
- Training
- Disaster Recovery
- Insurance
- Public Services Network

Incorporated within the above scope and objectives were compliance with the CESG 10 steps to cyber security publication, these are:

- Information Risk Management Regime
- User Education and Awareness
- Home and Mobile Working
- Secure Configuration
- Removable Media Controls
- Managing User Privileges
- Incident Management
- Monitoring
- Malware Protection
- Network Security

The scope of the audit was restricted to the above areas and reflects the current practises and procedures. It does not incorporate network structure, hardware or the impact of business continuity (which are vulnerabilities that the Council are aware of).

An external review of the ICT network is being undertaken and aims to make further recommendations to address these issues. It may be prudent once this is concluded to utilise specialist consultants to periodically assess the IT infrastructure and associated elements.

## Conclusion

It is considered that the current ICT system and procedures provide **Limited Assurance** in respect of network security (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). A summary of the assurance levels used from April 2017 are included at Appendix 1

## Findings and Recommendations

### Previous Audit Recommendations

1. A review of the previous audit recommendations revealed that 9 out of 12 have been completed to a satisfactory level.
2. 2 out of the 3 remaining audit recommendations have been progressed as below:
  - It was recommended that new ICT policies are approved and implemented as the current policies are outdated. New policies have been drafted by the Information Assurance Manager however the new policies have not yet been approved.
  - It was recommended that the new ICT policies include the risks of using personal devices for council data. A review of the draft policies (currently not approved) established that requirements for using your own device (BYOD) are listed in the new policies.
3. 1 out of the 3 remaining audit recommendations had not been progressed
  - It was recommended that a system be brought into place to monitor the transfer of data to unsecure email accounts. The original agreed implementation date was October 2017. So far no progress has been made however this is now to be reviewed as part of the ICT Transformation Project.

Recommendations		
R1	CBC	As recommended in the previous audit it is essential that the new draft ICT policies are approved and made available to employees and members as the current policies are outdated, this should include the risks of using personal devices <b>(Priority: High)</b>
R2	CBC & Arvato	A system should be implemented to monitor the transfer of data to unsecure email addresses. <b>(Priority: Medium)</b>

4. During the Accounts Payable Audit it was identified that the micro fax system used to fax remittance advice slips out to suppliers was running on an outdated machine (running windows XP, not PSN compliant). It was recommended that this system be replaced. A replacement system, provided by bottomline technologies has been bought and is planned to be implemented by the end of November 2017.

## Framework and Policies

5. During the 2014 audit it was recommended that the council's current "use of ICT by employees" policy is reviewed to determine it is still fit for purpose, if it was deemed unfit for purpose a new ICT policy should have been devised.
6. The Council's Policy on the use of ICT by employees and the responsibility for the review and update was not included in the Corporate Services specification for ICT therefore this is responsibility of CBC.
7. It was evidenced during the audit that new ICT policies have been drafted and are waiting to be submitted for approval. **See R1**

## Network Access Controls and Security

8. The Council's network can only be accessed by a corporate log on which requires a username and password. Network access is arranged by the ICT department upon completion of a new starters form confirming that they have read and accepted the ICT Policies. Users are only given access to limited areas of the network dependant on their role.
9. User accounts are controlled by secure passwords that are required to be changed on a 60 day cycle. The previous 20 passwords cannot be used and all passwords require specific formats. It was noted in the IT Health check that even though passwords comply with this policy they can still be considered weak passwords (e.g. Orange11 contains Upper case, lower case and numbers however is still a very weak password and is used by 22 user accounts (2.87%))
10. The council have recently received a password checking tool from the NCSC (national Cyber Security Centre). It has been agreed that the council network will be scanned on a monthly basis. This will allow the ICT department to identify weak passwords and contact the user to ensure it is updated with a more secure password. The first scan has been completed on this and the results have been discussed with the Information Assurance Manager.
11. It was established that recently the council has received a grant of £25,000 from NCSC (National Cyber Security Centre) to conduct a case study with the aim of reducing the requirements around passwords including changing passwords on a regular basis and allowing single sign on systems. This case study is being completed by the Information Assurance Manager with aim to be presented to the NCSC in March 2018.
12. Any change of access rights needs to be actioned by the ICT department. For new starters, leavers, movers, and long term absences, there is a form to complete so that access to all the relevant applications can be corrected too. This is the responsibility of the line manager.

13. Individual applications are managed by their respective system administrators. As these are not managed by the ICT department there is no central log to confirm what applications employees have access to. Records of access levels for each system can be obtained by the individual system administrators.
14. Remote Access to the network requires 2 factor authentication as well as requiring specific network certificates (can only be provided by ICT) before access to CBCs Virtual Private Network is granted.
15. Remote log on for anyone other than CBC employees requires the user to contact ICT department to be granted access to the system and given a single use Pass code to enable one off access to the network from a remote location. Remote locations are always checked to ensure they are within the European Economic Area.
16. It is required under data protection to ensure there are measures to prevent unlawful or unauthorised access to personal data. Within the council there are periodical reviews of users with access to the network. Discussions during the audit have identified that these get completed on a monthly basis. Any users that have not accessed the network for over one month have their access placed on hold until the user contacts the ICT department to unlock the account or the ICT department are made aware that the employee has left.
17. When a staff member leaves and their email account is still required the manager can request that the account stays open. Where this is the case the ICT department cannot remove this account without the manager's approval. Reminders are sent annually to managers to check whether the email accounts are still required.
18. Currently the council are in the process of ensuring all unnecessary user accounts are removed with the aim to reduce the number of Microsoft licences being paid for by the council (£21 per year per user account) for staff who do not work for the council but still have open accounts, this is part of the work being completed before Microsoft conduct an audit on the council systems.
19. During the audit it was evidenced that a review of users with administration rights within the council's windows domain system (Initial windows logon for council devices) had been completed on a regular basis
20. It was confirmed during the previous audit that encryption on all of the councils laptops has been completed using the Bitlocker application. Encryption ensures at all data stored within device is not accessible without entering a username and password.

### Data Transfer

21. When a user wishes to use data from an external CD or USB memory stick the policy states that user is required to contact ICT to ensure the media is safe to use. This is checked by using a "Sheep Dip" terminal which is not connected to the network. When any media gets tested it is logged within ICTs records. Examination of the "sheep dip" record shows that 32 tests have been completed in 2017.

22. Secure Data Transfer solutions are in place within CBC. A new web form provided by Egress has been created to allow employees and external users to “drop off” documents for collection by the recipient, while the information is held in situ it is securely held by egress. It is not possible to ensure that all data is transferred securely, this is the responsibility of the employee transferring the data however if sensitive data is lost the council could be fined by the ICO for the data breach. It was identified that encryption of emails can be established by configuration of the exchange servers to allow all emails to be secure this is currently in the process of being updated by the ICT department after a change request was submitted in April 2017.
23. It was identified that currently there is no monitoring of emails sent to/received from external sources. This means that employees could create sensitive council documentation on a personal device without the security measures needed to protect the data. It also means that employees could send data from corporate email to personal email addresses to allow them to edit council property on personal devices. Even if this data was sent securely there are multiple ways that sensitive data could be lost (E.g. Personal email address gets hacked, personal device is stolen with council data on, personal device gets ransomware). If the data was lost through an attack on the personal account/device the employee would not be required to report this as it is not council property. In November 2017 a charity worker received a conditional discharge for 2 years and a monetary fine for sending sensitive data from his work email account to his personal email account. ICO fines are set to increase as part of the GDPR guidelines from May 2018. **See R1 and R2**

#### Protection against Malicious Software

24. Sophos End Point Protection is the main protection for the council computers used by employees. This is installed on all computers within the council. A policy is created on Sophos to ensure all versions of Sophos protect the same areas:
- Anti-virus and Anti-malware protection
  - Adware and Potentially unwanted application protection
  - Application control blocks specific unwanted application from running
  - Device Control blocks the use external devices and allows specific devices (CD drives and USB devices)
  - The end point software is managed centrally by the Sophos Enterprise Console from within the ICT Department
  - The software automatically checks and install updates
25. During the audit it was identified that a computer within the audit office did not have a working version of Sophos Endpoint Protection, this was corrected during the audit and a further review of the Sophos Enterprise Console was completed, the following was established:
- 15 out of 15 computers sampled were running a version of Sophos which had been updated within the last 5 days.



- It was identified that the majority of versions of Sophos were running application control. The machines which were not running the application control scans still stated that Sophos was “up to date with the policy”.
- It was evidenced that there were 244 machines with errors on the Sophos software, these have not been reviewed.
- At the time of the audit there was a total of 96 machines without protection from Sophos across the council, these include printers, scanners and incompatible servers (e.g. Linux). it was established that a review of this list had not been completed recently to ensure that no computers were on the list.
- The only way to establish that a machine is not protected is by a reconciliation of current machines to protected machines. It was established that a reconciliation does not take place
- The management software keeps a record of machines that have missed updates however it was established that a machine that had not been updated since June 2017 was not recorded on this list.

At the time this was discovered the ICT Support Officer raised a help desk call to establish the cause of the issues.

Recommendation		
<b>R3</b>	<b>Arvato</b>	<p>A review of the Sophos monitoring procedures should be completed with the aim of ensuring the following are completed on a regular basis</p> <ul style="list-style-type: none"> <li>• Errors and warnings reviewed and cleared from system</li> <li>• Reconciliation of devices protected to full list of current devices</li> <li>• Ensuring all Sophos protection policies are active and correct</li> </ul> <p><b>(Priority: High)</b></p>

26. The authority uses Barracuda email filter to act as a gateway between the email server and the internet, This scans for malicious software or code within emails being sent or received.
27. The authority uses Bloxx web filter (which is due to go out of service) and has recently installed Smoothwall web filter as a physical device that acts as gateway between the internet and our PCs and the internet to protect them against malicious software and code.
28. Checkpoint Firewalls were installed in April 2015. This includes an IPS system which provides an extra layer of protection. These are managed by Imerja, who update the software, patches, proactively monitor and fix any issues with the system.
29. Mobile devices such as Smart phones, iPads and tablets do not directly connect to the network. Only to the E-Mail server. These devices are managed by an application called MobileIron, which in case of loss/theft, can remotely erase all data and lock the devices.
30. A sample of 10 computers from across the council was tested to ensure that the systems were updating the window operating system. All 10 were appropriately up to date.

31. A review of the Agresso, Resource link and IDOX servers established that these server's operating systems (windows) had not been updated with security updates since June 2017. It was evidenced that some servers had not been updated with security updates since 2014 prior to June 2017.
32. It was established that the council has recently come to an agreement where Arvato will update all of the server's operating systems, software and databases with security updates on a monthly basis. This has been agreed at a cost of £30,000 per annum.

**Security Testing and Incident Management**

33. A monthly vulnerability scan of the Council's external internet facing Internet Protocol (IP) addresses is carried out by Trustwave. The ICT department receive a report that details vulnerabilities identified and classify them as high, medium, low or info.
34. It was evidenced that these reports get reviewed and vulnerabilities get logged on the ICT service desk however these are logged as part of KPI ICT 9 (Responding to Incidents of security threats). The indicator is intended to measure the response in carrying out a risk assessment on information received about potential security threats; this includes the monthly network scans however it was established that the KPI only relates to the recording and assessment of incidents, not the fixing of the incidents
35. A new version of the KPI has been drafted by the information assurance manager. The Customers, Commissioning and Change Manager has agreed that this will be reviewed as part of the ICT review.
36. A review of the vulnerabilities reported on the trustwave scans was completed. The following table illustrates vulnerabilities compared over a 4 month period.

**Comparison of 4 months vulnerability scans**

	June	September			
	Vulnerabilities identified	Vulnerabilities outstanding	vulnerabilities identified since June	Fixed since June	% Change
High	0	0	0	0	0%
Medium	23	20	0	3	-13%
Low	14	17	4	1	21%

Although the above table indicates that 3 out of 23 medium risk vulnerabilities have been mitigated the 20 remaining vulnerabilities relate to server encryption:

- 13 of the remaining 20 vulnerabilities are required to be corrected before June 2018 as recommended by the PCI SSC. If these are not completed the PCI SSC will request risk mitigation and migration plans to ensure that this is going to be updated.
- 7 of the remaining 20 vulnerabilities are specific to the encryption methods. When this vulnerability was initially identified a test was conducted on the most popular websites around the world, this vulnerability was only accessible in 0.6% of instances.

37. On an annual Basis CBC receives an “ICT Health check” This is used to confirm compliance with PSN guidelines. The company SEC-1 completed the previous health check. The next health check will be procured after the council has gained PSN compliance which is to be submitted in December 2017. This will enable the next ICT health check to be completed in January or February 2018. Results of the health check will be discussed with the Information Assurance Manager to enable any risks identified to be reviewed and corrected to ensure PSN compliance.
38. The council has purchased licences for Nessus scanning software. This is an internal vulnerability scanner to allow the ICT department to intermittently scan in between the ICT Health Checks. It was agreed that these scans would be completed monthly to assess the progress fixing the network vulnerabilities. After a conversation with the ICT service lead and projects manager it was established that the first full scan has been completed in November 2017, this shows that some servers had vulnerabilities where the software updates had not been completed. These will be reviewed and updated with the aim to reduce the vulnerabilities that are detected.

Physical Security

39. It was identified that as part of PSN compliance the server rooms under ICT control were inspected to ensure compliance with PSN requirements.
40. Physical Server room audits are being completed on a 6 monthly basis, during the audit it was evidenced that these are being completed however have not been sent to the Information Assurance Manager for review since August 2016.

Recommendation		
<b>R4</b>	<b>Arvato</b>	Where server room audits are completed it should be ensured that the results are sent to the Information Assurance Manager for further review <b>(Priority: Low)</b>

41. Recently the ICT Board have agreed to an additional meeting, ICT Security Meeting. This will allow for operation discussions to take place and be taken for approval at the ICT Board Meeting.
42. A review of the previous 2 server room audits identified that recommendations are generally being completed however it was identified that the server room door codes have not been changed since November 2015 despite recommendation in the previous 2 server room audits.

Recommendation		
<b>R5</b>	<b>Arvato</b>	It should be ensured that the server room door codes are changed annually as a minimum standard <b>(Priority: Medium)</b>

43. The main server room at the town hall has prevention against fire and power surges. Temperatures in the room are also controlled by an independent air conditioning unit

- 44. With the increase of home working availability the home working policy states security measures to be taken when working remotely.
- 45. When an employee leaves, they are required to return all devices provided by the council. There is a central list of all devices held by ICT Dept.
- 46. During the audit a review of the record of issued devices was completed. It evidenced that the records from business transformation and the ICT department have been amalgamated and the record was up to date. It was identified that there were council devices that had been reported lost or stolen within the year. Not all of these losses were reported to the internal audit department.
- 47. A review of the lost and stolen guidance provided to Arvato revealed that Internal audit were not listed on the guidance to be made aware of lost or stolen devices.

<b>Recommendation</b>		
<b>R6</b>	<b>Arvato &amp; CBC</b>	It should be ensured that the lost and stolen device guidance is updated so that internal audit is made aware of any lost or stolen devices and that this guidance is adhered to. <b>(Priority: Low)</b>

- 48. During the audit it was evidenced that all unused ICT equipment is locked away when not in use.
- 49. When devices are disposed of they should be disposed of correctly. CBC Requires all disposal companies to be appropriately approved. The most recent collection was by TES-AMM Europe Ltd, who is certified to the standard required by CBC.
- 50. Since the previous audit the council has purchased a licence for data erasure software (Blancco). This is currently being used to erase remaining data on redundant servers prior to being sent for disposal. This is to further reduce the risk of a data breach.

Training

- 51. New starters must read, accept and sign a copy of the ICT Policy before they are given access to the ICT systems.
- 52. Training was identified and a recommendation made to ensure that the mandatory training is completed was included in the Data Protection Audit.
- 53. Since the previous audit the introduction of the Aspire learning system now means that the training is delivered in an online course. The mandatory course which included Data Protection, Freedom of Information and Information Security was released in March 2017.

<b>Recommendation</b>
-----------------------

<b>R7</b>	<b>CBC</b>	Action should be taken to ensure all council employees and members complete the mandatory training courses <b>(Priority: Medium)</b>
-----------	------------	--

54. The course was issued to 921 users, it was established that only 43.60% of council employees have completed the Information Security part of the course.

Disaster Recovery

55. It was established that since the previous audit all of the council servers have been migrated to the virtual server infrastructure. This now means that no tape backups are required and that all backups are now completed using the Commvault and Nimble Systems.

56. The ICT Projects Manager confirmed that operational requests have required information to be restored from the new virtual servers and no issues have been encountered.

57. A previous audit recommendation was to produce an updated and revised disaster recovery plan; a new plan was introduced in September 2016.

58. A recent ICT outage (caused by the core network switch failing and the failover system not activating) brought to light that the ICT disaster recovery plan does not cover the failure of certain parts of the ICT infrastructure.

59. A review of the current plan established that a clearly defined scope is included and where it states the following key phrases.

*“It must be understood that there are currently no ‘hot standby’ servers to replace the Town Hall server infrastructure should there be a disaster affecting these servers and the associated infrastructure (core network switches and firewalls controlling internet access)”*

*“Given the exceptional nature of certain situations with which Arvato could be faced, it is likely that certain contractual commitments become impossible to meet, in full or in part, for reasons beyond Arvato's control”*

Overall the disaster recovery plan provided by Arvato only covers the areas of infrastructure and support that Arvato are responsible for. This plan was approved by the council in September 2016.

60. During the audit it was established that key ICT staff were aware of the ICT disaster recovery plan however other ICT employees were not aware of it.

<b>Recommendation</b>		
<b>R8</b>	<b>Arvato</b>	It should be ensured that all ICT staff are aware of the disaster recovery plan and that it is available at all times <b>(Priority: Low)</b>

61. The Council Business Continuity Strategy and Plan is reviewed in the Business continuity audit.

## Insurance

62. Since the commencement of the contract CBC only has an insurable interest in the hardware used by CBC employees and members.
63. All devices owned by the council are covered by Insurance. For devices to be covered by insurance they need to be registered with the insurance company. A review of the ICT asset list was completed and established that it was up to date
64. When the laptops were purchased by Arvato for CBC the first 120 laptops were purchased with a 5 year accidental cover and extended warranty. It was decided by Great Place Great Service that further laptops purchased did not require the accidental cover and were only purchased with the extended warranties.

## Public Services Network

65. The Public Services Network allows for greater access to information and additional security for sharing information. It is currently run as part of the Government Digital Service.
66. To have access to the network each council is required to undergo an ICT Health Check, show that any issues that arise are being/have been fixed. The Council solicitor in his role as SIRO is required to sign information assurance documents. If all of these are completed correctly then the council will be granted a PSN compliance certificate, and access to the network.
67. The current PSN certificate for Chesterfield Borough Council was obtained in January 2017 and expires in January 2018. The application for next year's PSN compliance certificate will be started in December 2017.
68. It was established that the council also applied for the cyber essentials plus certification. This certification is similar to PSN compliance however this is assessed by an auditor where the PSN compliance is self-assessed.
69. Cyber essentials plus certifications are currently being promoted by the UK government. It was established that the DWP now accept either PSN Compliance or Cyber Essentials plus certifications to access the DWP service also that some government departments (MOD) require cyber essentials plus before any data transfers can take place.
70. The council failed to accomplish this certification this year. The main vulnerabilities are listed below:
  - Vulnerabilities were identified in the initial configuration of the machines tested.
  - Security patches that were released over 30 days prior to the testing were not installed on the machine tested.

A conversation with the Information Assurance Manager established that he will continue to seek the cyber essentials plus certification for CBC.

## Acknowledgement

71. The Auditors would like to thank the Officers within ICT Service and the Information Assurance Manager for their helpful assistance during this audit.

## Appendix 1.

### Internal Audit Consortium Report opinion classifications from April 17

<b>Assurance Level</b>	<b>Definition</b>
<b>Substantial Assurance</b>	There is a sound system of controls in place, designed to achieve the system objectives. Controls are being consistently applied and risks well managed.
<b>Reasonable Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>Inadequate Assurance</b>	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.



## Internal Audit Report – Implementation Schedule – CBC

<b>Report Title:</b>	ICT Network Security	<b>Report Date:</b>	15 <sup>th</sup> November 2017
		<b>Response Due By Date:</b>	6 <sup>th</sup> December 2017

Page 33

	Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
<b>R1</b>	As recommended in the previous audit it is essential that the new draft ICT policies are approved and made available to employees and members as the current policies are outdated.	<b>High</b>	Y	<b>Rachel O Neil</b>	<b>March 18</b>			
<b>R2</b>	A system should be implemented to monitor the transfer of data to unsecure email addresses.	<b>Medium</b>	Y	<b>Rachel O Neil</b>	<b>Oct 18</b>			This is a piece of work which has been included in the ICT improvement roadmap which is currently being discussed with members. It is expected to be implemented by October 2018
<b>R6</b>	It should be ensured that the lost and stolen device guidance is updated so that internal audit is made aware of any lost or stolen devices and that this guidance is adhered to.	<b>Low</b>	Y	<b>Mick Blythe</b>	<b>Jan 18</b>			This has been completed.

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagre ed	Further Discussion Required	Comments
				Officer	Date			
R7	Action should be taken to ensure all council employees and members complete the mandatory training courses	Medium	Y	Rachel O Neil / CMT	May 18			CMT are responsible to driving up completion rates for staff in their individual service areas.

     - Joint recommendation between CBC and Arvato (on both implementation schedules)

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

Signed Head of Service:	Rachel O Neil	Date:	16 <sup>th</sup> January 2018
-------------------------	---------------	-------	-------------------------------

**Note: In respect of any High priority recommendations please forward evidence of their implementation to Internal Audit as soon as possible.**

## Internal Audit Report – Implementation Schedule - Arvato

<b>Report Title:</b> ICT Network Security	<b>Report Date:</b> 15 <sup>th</sup> November 2017
	<b>Response Due By Date:</b> 6 <sup>th</sup> December 2017

Page 35

	Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
<b>R2</b>	A system should be implemented to monitor the transfer of data to unsecure email addresses.	<b>Medium</b>	Yes	CBC IAM/ Arvato ICT	TBA		Date to be agreed once the specification is developed	A secure email system specification is being developed and Arvato will be asked to quote for this change following completion of the contractual review of the ICT service.
<b>R3</b>	<p>A review of the Sophos monitoring procedures should be completed with the aim of ensuring the following are completed on a regular basis</p> <ul style="list-style-type: none"> <li>• Errors and warnings reviewed and cleared from system</li> <li>• Reconciliation of devices protected to full list of current devices</li> <li>• Ensuring all Sophos protection policies are active and correct</li> </ul>	<b>High</b>	Yes	Jon Alsop	31st Dec 2017			ICT will undertake an initial tidy up of the Sophos management console to remove obsolete devices. A new Group Policy has been implemented to identify devices

Recommendations		Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
				Officer	Date			
								that do not have Sophos installed and to install it. A weekly task will be added to the Service Desk to review the Sophos update progress report and investigate the devices that are not receiving Sophos updates.
R4	Where server room audits are completed it should be ensured that the results are sent to the Information Assurance Manager for further review	Low	Yes	Jon Alsop	Next server room audit due 27 <sup>th</sup> Nov 2017			The next server room audit will be sent to the Information Assurance Manager for further review.
R5	It should be ensured that the server room door codes are changed annually as a minimum standard	Medium	Yes	Jon Alsop	24 <sup>th</sup> Nov 2017			The codes were changed on the server room doors in the Town Hall and Customer Services Centre on 24 <sup>th</sup>

Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
			Officer	Date			
							November 2017. An annual task has been added to the ICT Wiki to prompt annual changes to these codes.
<b>R6</b>	It should be ensured that the lost and stolen device guidance is updated so that internal audit is made aware of any lost or stolen devices and that this guidance is adhered to.	<b>Low</b>	Yes	Jon Alsop	TBA		A request has been sent to the Information Assurance Manager to amend the guidance around lost or stolen devices to include the requirement to inform Internal Audit. Previous guidance did not include this requirement
<b>R8</b>	It should be ensured that all ICT staff are aware of the disaster recovery plan and that it is available at all times ( <b>Priority: Low</b> )	<b>Low</b>	Yes	Jon Alsop	30 <sup>th</sup> Nov 2017		At the next ICT Team Meeting the location of the disaster recovery plan will be discussed and

Recommendations	Priority (High, Medium, Low)	Agreed	To be Implemented By:		Disagreed	Further Discussion Required	Comments
			Officer	Date			
							will then become a standing reference on all future monthly ICT Team Meetings.

Please tick the appropriate response (✓) and give comments for all recommendations not agreed.

Signed Head of Service:	Jonathan Alsop	Date:	1 <sup>st</sup> December 2017
-------------------------	----------------	-------	-------------------------------

**Note: In respect of any High priority recommendations please forward evidence of their implementation to Internal Audit as soon as possible.**

By virtue of paragraph(s) 3 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

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**

### **Treasury Management Strategy 2018/19**

---

Meeting:	Standards and Audit Committee Cabinet Council
Date:	7 <sup>th</sup> February 2018 20 <sup>th</sup> February 2018 22 <sup>nd</sup> February 2018
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 and the Annual Investment Strategy Statement for 2018/19.
- 1.2 To approve the revised Minimum Revenue Provision (MRP) policy for 2017/18.
- 1.3 To approve the Minimum Revenue Provision (MRP) policy for 2018/19.

### **2.0 Recommendations**

- 2.1 That the Council affirms its adoption of CIPFA's Code of Practice on Treasury Management.

- 2.2 That the Treasury Management Strategy Statement and Annual Investment Strategy, including the Prudential Code Indicators be approved.
- 2.3 That the revised Minimum Revenue Provision policy for 2017/18 and the Minimum Revenue Provision policy for 2018/19 are 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 The Council first adopted the Code at its meeting on the 22<sup>nd</sup> October 2003. The Council is required to approve the Treasury Management and Investment Strategies and reaffirm its adoption of the Code before the start of each financial year.
- 3.3 CIPFA amended the Code in 2011 to take account of developments in the financial market place and the introduction of the Localism Act.

### **4.0 Capital Programme & Financing**

- 4.1 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; in effect allowing councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable.

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

### 4.3 Capital Expenditure

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

Capital expenditure £000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>General Fund</b>	5,954	8,265	11,354	1,708	925
<b>HRA</b>	12,901	19,559	16,842	21,462	21,094
<b>Total</b>	18,855	27,824	28,196	23,170	22,019

The table below shows how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure £000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>Financed by:</b>					
Capital receipts (GF & HRA)	3,384	5,382	4,862	3,099	2,801
Capital grants & contributions	4,055	4,792	5,266	1,145	660
Revenue Reserves & HRA Major Repairs Reserve	11,416	16,258	12,810	18,926	18,558
<b>Net financing need for the year</b>	-	<b>1,392</b>	<b>5,258</b>	-	-

### 4.4 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.

£000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
<b>Capital Financing Requirement</b>					
CFR – General Fund	13,983	14,898	19,708	16,086	12,495
CFR – HRA	134,359	132,343	130,358	128,403	126,477
<b>Total CFR</b>	<b>148,342</b>	<b>147,241</b>	<b>150,066</b>	<b>144,489</b>	<b>138,972</b>
<b>Movement in CFR</b>	<b>(2,512)</b>	<b>(1,101)</b>	<b>2,825</b>	<b>(5,577)</b>	<b>(5,517)</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	-	1,392	5,258	-	-
Less MRP/VRP and other financing movements	(2,512)	(2,493)	(2,433)	(5,577)	(5,517)
<b>Movement in CFR</b>	<b>(2,512)</b>	<b>(1,101)</b>	<b>2,825</b>	<b>(5,577)</b>	<b>(5,517)</b>

#### 4.5 Affordability Ratios

**Ratio 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.

%	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	5.39	4.93	5.36	4.85	4.27
HRA	18.40	18.88	18.92	18.67	17.95

The General Fund ratio increases in 2018/19 which reflects the prudential borrowing required to finance the build of the new Saltergate Multi-Storey car Park but this reduces in future years as capital receipts are set aside to repay that debt. 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.

**Estimates of the incremental impact of capital decisions on the Council Tax and housing rents** identifies the revenue costs associated with proposed changes to the capital programme recommended in the budget report compared to the Council's existing approved commitments and current plans.

**Incremental Impact of Capital Investment Decisions on Band D Council Tax**

£	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Council tax - band D	1.01	0.75	2.01	3.11

The capital programme includes projects to reconfigure the Town Hall and to rebuild Saltergate Multi-Storey Car Park which when completed will provide an opportunity to generate rental income to support the revenue budget.

**Incremental Impact of Capital Investment Decisions on Housing Rent Levels** identifies the trend in the cost of proposed changes in the housing capital programme report compared to the Council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

£	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
Weekly Housing Rent Levels	0.04	0.11	0.20	0.31

This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

**4.6 Minimum Revenue Provision**

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).

The Council recently commissioned its treasury advisors, Arlingclose, to undertake a review of its MRP calculations for General Fund capital expenditure to determine whether current arrangements are appropriate and whether alternative arrangements impacting on council tax could be put in place that would remain prudent.

Full details of the changes to the Minimum Revenue Provision policy for 2017/18 onwards, following the Arlingclose report recommendations, are attached at Appendix B. The proposed changes to the MRP policy have been discussed with external auditors, who are comfortable with the revised approach.

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR (option 2);  
An annuity based calculation based on an annuity rate of 2% over 40 years.  
From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:
- **Asset life method** – An annuity based calculation based on an annuity rate of 2% over the estimated life of the assets.

These options provide for a reduction in the borrowing need over approximately the asset's life.

The Council has the discretion to determine the debt repayment policy for the HRA. The Policy from April 2013 is to set aside a provision for debt repayment based on 1.5% of the Capital Financing Requirement. This policy will be reviewed in later years as the Business Plan develops.

## 5.0 External Debt

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

## 5.2 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.

£000	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Operational Boundary	133,250	138,330	129,570	127,640
Authorised Limit	144,000	147,970	146,151	144,398

5.3 **Borrowing Strategy** - The Public Works Loans Board continues to be the main source of long-term financing.

## 6.0 Annual Investment Strategy

6.1 The Annual Investment 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.

Appendix A provides details of permitted investments.

## 7.0 Recommendations

7.1 That the Council affirms its adoption of CIPFA's Code of Practice on Treasury Management.

7.2 That the Treasury Management Strategy Statement and Annual Investment Strategy, including the Prudential Code Indicators be approved.

- 7.3 That the revised Minimum Revenue Provision (MRP) policy for 2017/18 is approved.
- 7.4 That the Minimum Revenue Provision (MRP) policy for 2018/19 is approved.

## **8.0 Reasons for recommendations**

- 8.1 To comply with regulations and recognised best practice.

### **Decision information**

<b>Key decision number</b>	<b>788</b>
<b>Wards affected</b>	<b>All</b>
<b>Links to Council Plan priorities</b>	To ensure value for money services.

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
Karen Ludditt	karen.ludditt@chesterfield.gov.uk
<b>Background documents</b>	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
<b>Appendices to the report</b>	
Appendix A	Treasury Management Strategy Statement 2018/19
Appendix B	Revised Minimum Revenue Provision Methodology

Treasury Management Strategy Statement 2018/19

Introduction

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 risk are therefore central to the Authority's treasury management strategy.

In October 2003, the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 (the CIPFA code last reviewed in 2011) which requires the Authority to approve a treasury management strategy before the start of each financial year. CIPFA consulted on changes to the Code in 2017, but has yet to publish a revised Code.

In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment 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 both the CIPFA Code and the CLG Guidance.

**Revised Strategy:** In accordance with the CLG Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, in the Authority's capital programme or in the level of its investment balance.

External Context

**Economic background:** The major external influence on the Authority's treasury management strategy for 2018/19 will be the UK's progress in

negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy has remained relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018/19.

Consumer price inflation reached 3.0% in September 2017 as the post-referendum devaluation of sterling continued to feed through to imports. Unemployment continued to fall and the Bank of England's Monetary Policy Committee judged that the extent of spare capacity in the economy seemed limited and the pace at which the economy can grow without generating inflationary pressure had fallen over recent years. With its inflation-control mandate in mind, the Bank of England's Monetary Policy Committee raised official interest rates to 0.5% in November 2017.

In contrast, the US economy is performing well and the Federal Reserve is raising interest rates in regular steps to remove some of the emergency monetary stimulus it has provided for the past decade. The European Central Bank is yet to raise rates, but has started to taper its quantitative easing programme, signalling some confidence in the Eurozone economy.

**Credit outlook:** High profile bank failures in Italy and Portugal have reinforced concerns over the health of the European banking sector. Sluggish economies and fines for pre-crisis behaviour continue to weigh on bank profits, and any future economic slowdown will exacerbate concerns in this regard.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. In addition, the largest UK banks will ringfence their retail banking functions into separate legal entities during 2018. There remains some uncertainty over how these changes will impact upon the credit strength of the residual legal entities.

The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain very low.

**Interest rate forecast:** The Authority’s treasury adviser Arlingclose’s central case is for UK Bank Rate to remain at 0.50% during 2018/19, following the rise from the historic low of 0.25%. The Monetary Policy Committee re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

Future expectations for higher short term interest rates are subdued and on-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions. The risks to Arlingclose’s forecast are broadly balanced on both sides. The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government’s seemingly deteriorating fiscal stance is an upside risk.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.52%, 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 2017, the Authority currently held £132.8m of borrowing and £50.9m of investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

**Table 1: Balance Sheet Summary and Forecast**

	<b>31.3.17 Actual £000</b>	<b>31.3.18 Estimate £000</b>	<b>31.3.19 Forecast £000</b>	<b>31.3.20 Forecast £000</b>	<b>31.3.21 Forecast £000</b>
General Fund CFR	13,983	14,898	18,316	10,678	9,376
HRA CFR	134,359	132,343	130,358	128,403	126,477
<b>Total CFR</b>	<b>148,342</b>	<b>147,241</b>	<b>148,674</b>	<b>139,081</b>	<b>135,853</b>
Less: External borrowing (actual)	-133,245	-131,303	-129,336	-127,341	-125,373

NB No breach of levels set out in 5.2 of report					
<b>Internal borrowing</b>	<b>15,097</b>	<b>15,938</b>	<b>19,338</b>	<b>11,740</b>	<b>10,480</b>
Less: Usable reserves	-35,942	-27,211	-25,695	-20,213	-19,809
Less: Working capital	-3,494	-3,435	-3,437	-3,424	-3,411
<b>Investments</b>	<b>24,339</b>	<b>14,708</b>	<b>9,794</b>	<b>11,897</b>	<b>12,740</b>

The Capital Financing Requirement is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow for capital purposes.

The Authorities General Fund CFR increases in the financial years to 2018/19 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 decreasing HRA CFR. Investments are forecast to increase to £50m by 31/3/18 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 during 2018/19.

### **Borrowing Strategy**

The Authority currently holds £131m of loans in 2017/18, a decrease of £2m 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 2018/19. 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. 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 2018/19 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:** The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Banks or building societies authorised to operate in the UK (including non-UK banks)
- 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
- Sheffield City Region Combined Authority

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

- operating and finance leases
- 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 Bond 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 limit on the net exposure to variable interest rates 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 £39m and £53m.

**Objectives:** Both the CIPFA Code and the CLG Guidance require 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.

**Negative Interest Rates:** If the UK enters into a recession in 2018/19, 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 2018/19. The majority of the Authorities surplus cash remains invested in short-term unsecured bank deposits, certificates of deposit and money market funds.

**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**

<b>Credit Rating</b>	<b>Banks &amp; Building Societies</b>	<b>Other Local Authorities</b>	<b>Government</b>	<b>Corporates</b>	<b>Registered Providers</b>
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 2 years	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
<b>Pooled funds</b>	£10m per fund				

**Counterparty & Group Limits:** Investments with each individual counterparty should not exceed £5m. The sum of investments with individual counterparties who belong to the same banking group shall not exceed £7.5m. The investment limit for Pooled Funds including Money Market Funds is £10million.

**Credit Rating:** Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. 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.

**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.

**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 an insignificant risk of insolvency. 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, formerly known as housing associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services, they retain the likelihood of receiving government support if needed.

**Pooled Funds:** Shares 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 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.

**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 organisation's in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating 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.

**Specified Investments:** The MHCLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,
- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local authority, parish council or community council, or
  - a body or investment scheme of “high credit quality”.

The Authority defines “high credit quality” organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating equivalent of AA+ or higher. For money market funds and other pooled funds “high credit quality” is defined as those having a credit rating of A- or higher.

**Non-specified Investments:** Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 3 below.

Table 3: Non-Specified Investment Limits

	<b>Cash limit</b>
Total long-term investments	£5m
Total investments without credit ratings or rated below A- (except UK Government and local authorities)	£3m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£3m
Total non-specified investments	£11m

**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.

### **Non-Treasury Investments**

Although not classed as treasury management activities and therefore not covered by the CIPFA Code or the CLG Guidance, the Authority may also purchase property for investment purposes.

Such investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

### **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 fixed and variable rate



interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	£135m	£140m	£130m
Upper limit on variable interest rate exposure	£60m	£60m	£55m

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

**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 fixed rate borrowing will be:

	Upper	Lower
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	20%	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 364 days:** 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:

	2018/19	2019/20	2021/22

Limit on principal invested beyond year end	£5m	£3m	£0m
---	-----	-----	-----

## **Other Items**

There are a number of additional items that the Authority is obliged by CIPFA or MHCLG to include in its Treasury Management Strategy.

**Policy on Use of 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 does not anticipate using any financial derivatives during 2018/19.

**Policy on Apportioning Interest to the HRA:** 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

**Investment Training:** The needs of the Authority's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff regularly attends training courses, seminars and conferences provided by Arlingclose and CIPFA.

**Investment Advisers:** The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is reviewed regularly.

**Investment of Money Borrowed in Advance of Need:** The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit of £148m for 2018/19. The maximum period between borrowing and expenditure is expected to be three years, although the Authority is not required to link particular loans with particular items of expenditure.

### **Financial Implications**

The budget for investment income in 2018/19 is £0.3m, based on an average investment portfolio of £48m at an interest rate of 0.58%. For the General Fund, the budget for debt interest paid in 2018/19 is £197k based on an average debt portfolio of £3.3m at an average interest rate of 5.9%. For the HRA, debt interest paid is forecast at £4.8m based on an average debt portfolio of £128m at an average interest rate of 3.8%.

### **Other Options Considered**

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance & Resources believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

## **Appendix A – Arlingclose Economic & Interest Rate Forecast November 2017**

### **Underlying assumptions:**

- In a 7-2 vote, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.
- Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.
- The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.
- Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.
- Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

- The depreciation in sterling may assist the economy to rebalance away from spending. Export volumes will increase, helped by a stronger Eurozone economic expansion.
- Near-term global growth prospects have continued to improve and broaden, and expectations of inflation are subdued. Central banks are moving to reduce the level of monetary stimulus.
- Geo-political risks remains elevated and helps to anchor safe-haven flows into the UK government bond (gilt) market.

**Forecast:**

- The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.
- Our central case for Bank Rate is 0.5% over the medium term. The risks to the forecast are broadly balanced on both sides.
- The Arlingclose central case is for gilt yields to remain broadly stable across the medium term. Upward movement will be limited, although the UK government's seemingly deteriorating fiscal stance is an upside risk.

	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Average
<b>Official Bank Rate</b>														
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.19
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.15
<b>3-month LIBID rate</b>														
Upside risk	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.22
<b>Arlingclose Central Case</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
Downside risk	-0.10	-0.10	-0.15	-0.15	-0.15	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.25	-0.20
<b>1-yr LIBID rate</b>														
Upside risk	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.27
<b>Arlingclose Central Case</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.70</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.77</b>
Downside risk	-0.15	-0.20	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.15	-0.26
<b>5-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
<b>Arlingclose Central Case</b>	<b>0.75</b>	<b>0.75</b>	<b>0.80</b>	<b>0.80</b>	<b>0.80</b>	<b>0.85</b>	<b>0.90</b>	<b>0.90</b>	<b>0.95</b>	<b>0.95</b>	<b>1.00</b>	<b>1.05</b>	<b>1.10</b>	<b>0.89</b>
Downside risk	-0.20	-0.20	-0.25	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
<b>10-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
<b>Arlingclose Central Case</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.25</b>	<b>1.30</b>	<b>1.30</b>	<b>1.35</b>	<b>1.40</b>	<b>1.45</b>	<b>1.50</b>	<b>1.55</b>	<b>1.55</b>	<b>1.36</b>
Downside risk	-0.20	-0.25	-0.25	-0.25	-0.25	-0.30	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.33
<b>20-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
<b>Arlingclose Central Case</b>	<b>1.85</b>	<b>1.85</b>	<b>1.85</b>	<b>1.85</b>	<b>1.85</b>	<b>1.90</b>	<b>1.90</b>	<b>1.95</b>	<b>1.95</b>	<b>2.00</b>	<b>2.05</b>	<b>2.05</b>	<b>2.05</b>	<b>1.93</b>
Downside risk	-0.20	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.38
<b>50-yr gilt yield</b>														
Upside risk	0.20	0.25	0.25	0.25	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.40	0.32
<b>Arlingclose Central Case</b>	<b>1.70</b>	<b>1.70</b>	<b>1.70</b>	<b>1.70</b>	<b>1.70</b>	<b>1.75</b>	<b>1.80</b>	<b>1.85</b>	<b>1.90</b>	<b>1.95</b>	<b>1.95</b>	<b>1.95</b>	<b>1.95</b>	<b>1.82</b>
Downside risk	-0.30	-0.30	-0.25	-0.25	-0.30	-0.35	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.39





**Revised Minimum Revenue Provision Methodology**

**Background**

Chesterfield Borough Council recently commissioned its treasury advisors, Arlingclose, to undertake a review of its MRP calculations for non-Housing Revenue Account (HRA) unsupported and supported capital expenditure. The objective of the review was to determine whether current arrangements are appropriate and whether alternative arrangements impacting on Council Tax could be put in place that would remain prudent.

Following the review the Council has considered Arlingclose's report and is proposing to amend its MRP methodology for the 2017/18 financial year onwards. This is in line with MHCLG's Draft MRP Guidance which indicates that revisions to MRP should be based on the Residual CFR i.e. retrospective calculations should not be undertaken.

The 2016/17 CFR and MRP items are summarised as follows:

		CFR	MRP	CFR	MRP Basis
		31-Mar-16	2016/17	31-Mar-17	
		£	£	£	
Non-HRA	Supported Capital Expenditure	5,538,008.64	-221,520.35	5,316,488.29	4.00%
Non-HRA	Unsupported Capital Expenditure	8,924,010.90	-245,668.02	8,678,342.88	Asset Life - Equal Instalment
		<b>14,462,019.54</b>	<b>-467,188.37</b>	<b>13,994,831.17</b>	

The Council is currently applying MRP at 4% of the previous year's Non-HRA Supported Capital Expenditure CFR.

The remaining element of the non-HRA CFR is in respect of Unsupported Capital Expenditure. MRP for this expenditure is currently applied on a straight line basis over the estimated lives of the related assets.

**Supported Non-HRA Capital Expenditure:**

The Council has currently adopted Option 2 – the CFR Method of MHCLG's MRP Guidance for supported capital expenditure. The Council's Supported CFR as at 31st March 2017 was £5.316m. Under Option 2 MRP is charged at 4% of the previous year's Supported CFR.

From 2017/18 onwards the Council proposes adopting an Annuity based calculation for MRP on the supported capital expenditure element of the CFR. A calculation has been undertaken using an Annuity Rate of 2% over 40 years. The percentage chosen corresponds with the Monetary Policy Committee's inflation target rate of 2%. MRP will increase by this percentage each year. This reflects the time value of money and produces a consistent charge to Council Tax payers. The annuity period of 40 years has been selected as a period over which the capital expenditure could be expected to provide a benefit to Council Tax payers. A straight line approach has also been calculated for comparison purposes.

The results of these methods of calculation are compared to the existing methodology below:

Chesterfield Borough Council									
Supported Borrowing CFR and MRP									
Year	Year ending 31st March	Closing CFR	Current Method MRP	Closing CFR	Inflation based MRP	Closing CFR	Straight Line MRP	Difference between Current Method MRP and Inflation MRP	Difference between Current Method MRP and Straight Line MRP
		Adjustment A --->	£0						
			4%		2%		40		
		£	£	£	£	£	£	£	£
	2017	5,316,488		5,316,488		5,316,488			
1	2018	5,103,828	212,660	5,228,470	88,018	5,183,576	132,912	124,641	79,747
2	2019	4,899,675	204,153	5,138,691	89,779	5,050,664	132,912	114,374	71,241
3	2020	4,703,688	195,987	5,047,116	91,574	4,917,751	132,912	104,413	63,075
4	2021	4,515,541	188,148	4,953,711	93,406	4,784,839	132,912	94,742	55,235
5	2022	4,334,919	180,622	4,858,437	95,274	4,651,927	132,912	85,348	47,709
6	2023	4,161,522	173,397	4,761,257	97,179	4,519,015	132,912	76,217	40,485
7	2024	3,995,061	166,461	4,662,134	99,123	4,386,103	132,912	67,338	33,549
8	2025	3,835,259	159,802	4,561,029	101,106	4,253,190	132,912	58,697	26,890
9	2026	3,681,849	153,410	4,457,901	103,128	4,120,278	132,912	50,283	20,498
10	2027	3,534,575	147,274	4,352,711	105,190	3,987,366	132,912	42,084	14,362
11	2028	3,393,192	141,383	4,245,417	107,294	3,854,454	132,912	34,089	8,471
12	2029	3,257,464	135,728	4,135,977	109,440	3,721,542	132,912	26,288	2,815
13	2030	3,127,166	130,299	4,024,348	111,629	3,588,629	132,912	18,670	-2,614
14	2031	3,002,079	125,087	3,910,487	113,861	3,455,717	132,912	11,225	-7,826
15	2032	2,881,996	120,083	3,794,349	116,138	3,322,805	132,912	3,945	-12,829
16	2033	2,766,716	115,280	3,675,887	118,461	3,189,893	132,912	-3,181	-17,632
17	2034	2,656,047	110,669	3,555,057	120,830	3,056,981	132,912	-10,162	-22,244
18	2035	2,549,805	106,242	3,431,810	123,247	2,924,068	132,912	-17,005	-26,670
19	2036	2,447,813	101,992	3,306,098	125,712	2,791,156	132,912	-23,720	-30,920
20	2037	2,349,901	97,913	3,177,872	128,226	2,658,244	132,912	-30,314	-35,000
21	2038	2,255,905	93,996	3,047,081	130,791	2,525,332	132,912	-36,795	-38,916
22	2039	2,165,668	90,236	2,913,674	133,407	2,392,420	132,912	-43,170	-42,676
23	2040	2,079,042	86,627	2,777,599	136,075	2,259,507	132,912	-49,448	-46,285
24	2041	1,995,880	83,162	2,638,803	138,796	2,126,595	132,912	-55,635	-49,751
25	2042	1,916,045	79,835	2,497,231	141,572	1,993,683	132,912	-61,737	-53,077
26	2043	1,839,403	76,642	2,352,828	144,404	1,860,771	132,912	-67,762	-56,270
27	2044	1,765,827	73,576	2,205,536	147,292	1,727,859	132,912	-73,716	-59,336
28	2045	1,695,194	70,633	2,055,298	150,237	1,594,946	132,912	-79,604	-62,279
29	2046	1,627,386	67,808	1,902,056	153,242	1,462,034	132,912	-85,434	-65,104
30	2047	1,562,291	65,095	1,745,749	156,307	1,329,122	132,912	-91,212	-67,817
31	2048	1,499,799	62,492	1,586,316	159,433	1,196,210	132,912	-96,942	-70,421
32	2049	1,439,807	59,992	1,423,694	162,622	1,063,298	132,912	-102,630	-72,920
33	2050	1,382,215	57,592	1,257,820	165,874	930,385	132,912	-108,282	-75,320
34	2051	1,326,926	55,289	1,088,628	169,192	797,473	132,912	-113,903	-77,624
35	2052	1,273,849	53,077	916,052	172,576	664,561	132,912	-119,499	-79,835
36	2053	1,222,895	50,954	740,025	176,027	531,649	132,912	-125,073	-81,958
37	2054	1,173,979	48,916	560,478	179,548	398,737	132,912	-130,632	-83,996
38	2055	1,127,020	46,959	377,339	183,139	265,824	132,912	-136,179	-85,953
39	2056	1,081,939	45,081	190,537	186,801	132,912	132,912	-141,721	-87,831
40	2057	1,038,662	43,278	0	190,537	0	132,912	-147,260	-89,635
			4,277,826		5,316,488		5,316,488	-1,038,662	-1,038,662

The existing methodology results in the CFR being £1.039m in 40 years' time as MRP is charged on a reducing balance basis. Under the Annuity method this element of the CFR would be fully financed in 40 years' time. This method can be considered to be more prudent than the current methodology as it would fully finance the capital expenditure over the given period of years.

MRP under this method would be £0.125m lower in 2017/18 when compared with that under the CFR Method. In 15 years' time MRP under the Annuity method would broadly match that under the CFR Method. Interestingly the final amount of MRP in 40 years' time would be £0.190m which is £0.022m lower than MRP under the CFR Method estimated for the current year.

### **Unsupported non-HRA Capital Expenditure:**

Details of the Council's unsupported capital expenditure are as follows:

	CFR	MRP	CFR	Estimated	Remaining
	31-Mar-16	2016/17	31-Mar-17	Life	Life
Unsupported Capital Expenditure:	£	£	£	(Years)	(Years)
<b>Rose Hill Car Park: Pay-on-Exit Scheme:</b>					
Electrical & ICT infrastructure, lighting columns, boundary walls	33,753.81	- 1,350.15	32,403.66	30	25
Hard surfacing	58,162.72	- 3,877.51	54,285.21	20	15
Parking control equipment, light fittings, other fixtures, boundary fences	123,566.72	- 12,356.67	111,210.05	15	10
	<b>215,483.25</b>	<b>- 17,584.33</b>	<b>197,898.92</b>		
<b>Market Hall Redevelopment:</b>					
Market Hall Redevelopment (LT)	1,213,333.34	- 43,333.33	1,170,000.01	30	28
Market Hall Redevelopment (Temp)	480,052.16	- 17,144.72	462,907.44	30	28
	<b>1,693,385.50</b>	<b>- 60,478.05</b>	<b>1,632,907.45</b>		
<b>QPSC New Build:</b>					
QPSC New Build (Wall Structure) (50% of spend)	3,023,577.94	- 37,794.72	2,985,783.22	80	80
QPSC New Build (Other Structure) (15% of spend)	907,073.38	- 18,141.47	888,931.91	50	50
QPSC New Build (Building Services) (30% of spend)	1,814,146.76	- 60,471.56	1,753,675.20	30	30
QPSC New Build (Fixtures etc.) (5% of spend)	302,357.79	- 30,235.78	272,122.01	10	10
	<b>6,047,155.88</b>	<b>- 146,643.53</b>	<b>5,900,512.35</b>		
<b>Ex-Fire Station Site</b>	<b>547,844.50</b>	<b>- 11,413.43</b>	<b>536,431.07</b>	<b>50</b>	<b>48</b>
<b>Loan to Chesterfield FC</b>	<b>420,141.77</b>	<b>- 9,548.68</b>	<b>410,593.09</b>	<b>50</b>	<b>44</b>
<b>Total Unsupported Capital Expenditure</b>	<b>8,924,010.90</b>	<b>- 245,668.02</b>	<b>8,678,342.88</b>		

For new capital expenditure under the Prudential system for which no Government support is being given and is therefore self-financed, there are two options included in the Guidance.

Option 3 is to make provision over the estimated life of the asset for which the capital expenditure is undertaken. Within option 3, two methods are identified.

The first of these is the equal instalment method where MRP is charged on a straight line basis over the estimated life of the asset. The Council has adopted this version of Option 3 as its current policy for making MRP in respect of unsupported capital expenditure.

From 2017/18 onwards the Council proposes adopting the alternative method under Option 3 which is the annuity method. This has the advantage of linking MRP to the flow of benefits from an asset where the benefits are expected to increase in later years.

Guidance on the calculation method is given by CIPFA in Chapter 6 of its publication Practitioners' Guide to Capital Finance in Local Government (CIPFA 2008) (ISBN 978 1 84508 175 1).

*This document states "The informal commentary on the statutory guidance suggests that the annuity method may be particularly attractive in projects where revenues will increase over time. However, it is arguably the case that the annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now. The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into the real value of the amounts when they fall due. The annuity method would then be a prudent basis for providing for assets that provided a steady flow of benefits over their useful life."*

Consideration has been given to assessing the impact of adopting the Annuity method in respect of its unsupported capital expenditure. CIPFA's Practitioners' Guide to Capital Finance in Local Government supports the use of the Annuity method on the basis that the MRP charge to Revenue takes account of the time value of money. This results in a consistent charge to Revenue for assets that provide a steady flow of benefits over their useful lives.

In using the Annuity method for calculating MRP the Council considers that it would be appropriate to set the annuity rate at estimated inflation. This will result in MRP rising each year at that rate. As the Bank of England's Monetary Policy Committee is charged with the requirement for Consumer Price Inflation (CPI) to be maintained at 2%, the Council proposes to apply an annuity rate of 2% to calculate MRP under the Annuity Method.

The Table below compares the existing straight line approach MRP and the CFR with a 2% Annuity approach. The first 40 years are presented.

Chesterfield Borough Council							
Unsupported Capital Expenditure CFR and MRP							
Year	Year ending 31st March	Equal Instalment MRP	Equal Instalment CFR	2% Inflation Annuity MRP	2% inflation Annuity CFR	MRP Difference	Cumulative Impact
		£	£	£	£	£	£
1	2018	245,668	8,432,675	174,912	8,503,431	70,756	70,756
2	2019	245,668	8,187,007	178,410	8,325,021	67,258	138,014
3	2020	245,668	7,941,339	181,978	8,143,042	63,690	201,703
4	2021	245,668	7,695,671	185,618	7,957,424	60,050	261,753
5	2022	245,668	7,450,003	189,330	7,768,094	56,338	318,091
6	2023	245,668	7,204,335	193,117	7,574,977	52,551	370,642
7	2024	245,668	6,958,667	196,979	7,377,998	48,689	419,331
8	2025	245,668	6,712,999	200,919	7,177,079	44,749	464,080
9	2026	245,668	6,467,331	204,937	6,972,141	40,731	504,810
10	2027	203,076	6,264,255	162,072	6,810,069	41,004	545,814
11	2028	203,076	6,061,179	165,313	6,644,756	37,763	583,577
12	2029	203,076	5,858,103	168,620	6,476,136	34,456	618,033
13	2030	203,076	5,655,027	171,992	6,304,144	31,084	649,117
14	2031	203,076	5,451,951	175,432	6,128,712	27,644	676,761
15	2032	199,198	5,252,753	174,456	5,954,256	24,742	701,503
16	2033	199,198	5,053,555	177,945	5,776,311	21,253	722,756
17	2034	199,198	4,854,357	181,504	5,594,807	17,694	740,450
18	2035	199,198	4,655,159	185,134	5,409,673	14,064	754,514
19	2036	199,198	4,455,961	188,837	5,220,836	10,361	764,875
20	2037	199,198	4,256,763	192,614	5,028,223	6,584	771,460
21	2038	199,198	4,057,565	196,466	4,831,757	2,732	774,192
22	2039	199,198	3,858,367	200,395	4,631,362	-1,197	772,995
23	2040	199,198	3,659,169	204,403	4,426,959	-5,205	767,790
24	2041	199,198	3,459,971	208,491	4,218,468	-9,293	758,497
25	2042	197,848	3,262,123	210,948	4,007,520	-13,100	745,397
26	2043	197,848	3,064,275	215,167	3,792,353	-17,319	728,078
27	2044	197,848	2,866,427	219,470	3,572,882	-21,622	706,455
28	2045	137,370	2,729,057	145,001	3,427,881	-7,631	698,824
29	2046	137,370	2,591,687	147,901	3,279,980	-10,531	688,293
30	2047	76,898	2,514,789	70,579	3,209,401	6,319	694,612
31	2048	76,898	2,437,891	71,991	3,137,411	4,907	699,520
32	2049	76,898	2,360,993	73,430	3,063,980	3,468	702,987
33	2050	76,898	2,284,095	74,899	2,989,081	1,999	704,986
34	2051	76,898	2,207,197	76,397	2,912,684	501	705,487
35	2052	76,898	2,130,299	77,925	2,834,760	-1,027	704,461
36	2053	76,898	2,053,401	79,483	2,755,276	-2,585	701,875
37	2054	76,898	1,976,503	81,073	2,674,203	-4,175	697,700
38	2055	76,898	1,899,605	82,695	2,591,509	-5,797	691,904
39	2056	76,898	1,822,707	84,348	2,507,160	-7,450	684,453
40	2057	76,898	1,745,809	86,035	2,421,125	-9,137	675,316

MRP is lower than the current methodology in the early years but again the differences diminish over the years as the annuity inflates at 2% per annum. The original capital expenditure is fully financed under both MRP methods.

This page is intentionally left blank

## **For publication**

### **CIPFA Fraud and Corruption Tracker Survey 2017**

---

Meeting:	Standards and Audit Committee
Date:	7th February 2018
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](#) (CFaCT) survey 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 used to highlight 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 third CFaCT survey was carried out in May 2017 with the aim of providing a national picture of fraud, bribery and corruption in local government.

3.3 The key findings of the 2017 CIPFA Fraud and Corruption Tracker were:-

- An estimated 75,000 frauds have been detected or prevented across local authorities in 2016/17 with a total value of £336.2m
- The number of fraud cases investigated or prevented dropped in 2017
- But the average value per fraud increased from £3,400 to £4,500
- Procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas
- Adult social care fraud has shown the largest growth in the past year, with an estimated £5.6m investigated compared with £3.0m in 2016
- The highest number of investigations related to council tax fraud (76%) with a value of £25.5m
- The highest area of fraud is housing with an estimated total of £263.4m
- 38% of organisations who responded have a dedicated counter fraud service.
- Cyber crime has a high profile in the media and poses a growing challenge to a sector becoming more digital in terms of service delivery

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 21st September 2016.

- 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.

#### **4.0 Alternative options and reasons for rejection**

4.1 The report is for information.

#### **5.0 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.

## **6.0 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**

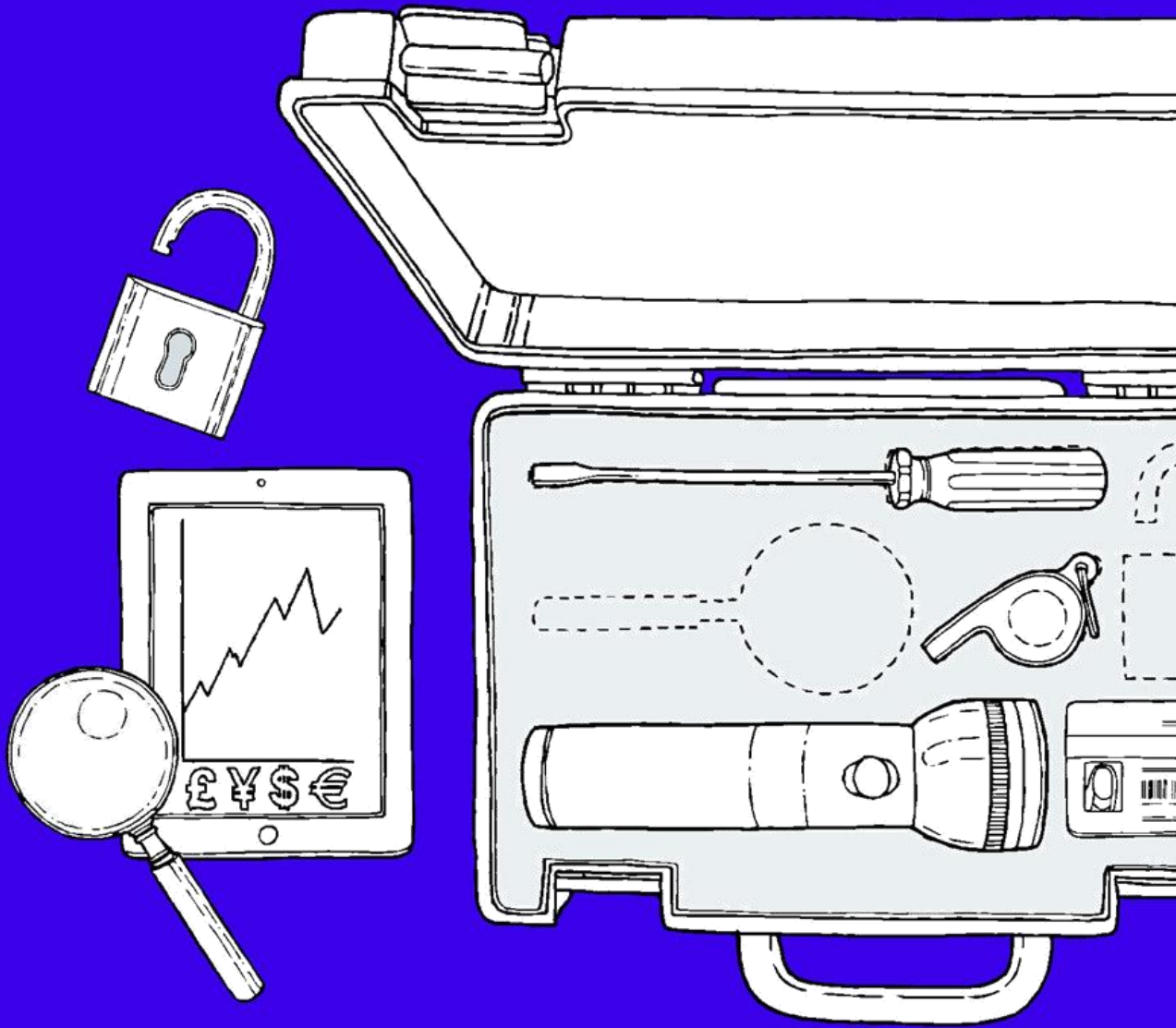
<b>Key decision number</b>	N/A
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	This report links to the Council's priority to provide value for money services.

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
<b>Jenny Williams – Internal Audit Consortium Manager</b>	<b>01246 345468</b> <b>Jenny.williams@chesterfield.gov.uk</b>
<b>Background documents</b> 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

# fraud and corruption tracker

Summary Report 2017



# Contents

<b>3</b>	Foreword
<b>5</b>	Introduction
<b>8</b>	Recommendations
<b>9</b>	Main Types of Fraud <ul style="list-style-type: none"><li>– Council tax</li><li>– Housing</li><li>– Disabled parking (Blue Badge)</li><li>– Adult social care</li></ul>
<b>13</b>	Other Types of Fraud <ul style="list-style-type: none"><li>– Business rates</li><li>– Insurance</li><li>– Procurement</li><li>– Welfare assistance and no recourse to public funds</li><li>– Payroll, expenses, recruitment and pensions</li><li>– Economic and voluntary sector (grant fraud)</li><li>– Manipulation of data (financial or non-financial) and mandate fraud</li></ul>
<b>16</b>	Serious and Organised Crime
<b>16</b>	Whistleblowing
<b>17</b>	Counter Fraud Resources
<b>18</b>	Sanctions
<b>19</b>	Fighting Fraud and Corruption Locally
<b>20</b>	Acknowledgements
<b>21</b>	Appendix 1: Estimates and Fraud Types
<b>22</b>	Appendix 2: Research Methodology

## Foreword

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

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

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

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

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

This report will:

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

The survey was supported by:



## The CIPFA Counter Fraud Centre

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



## Introduction

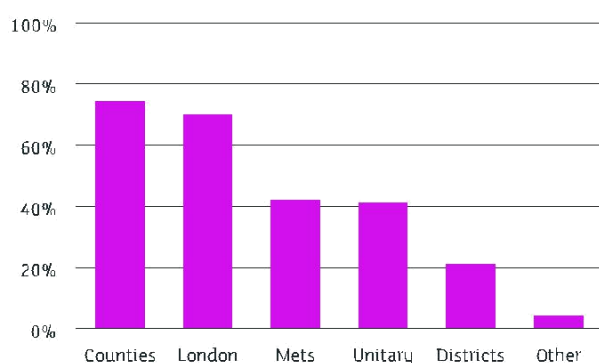
CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the [Annual Fraud Indicator 2013](#), which provides the last set of government sanctioned estimates, fraud costs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

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

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

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

### Response Rate

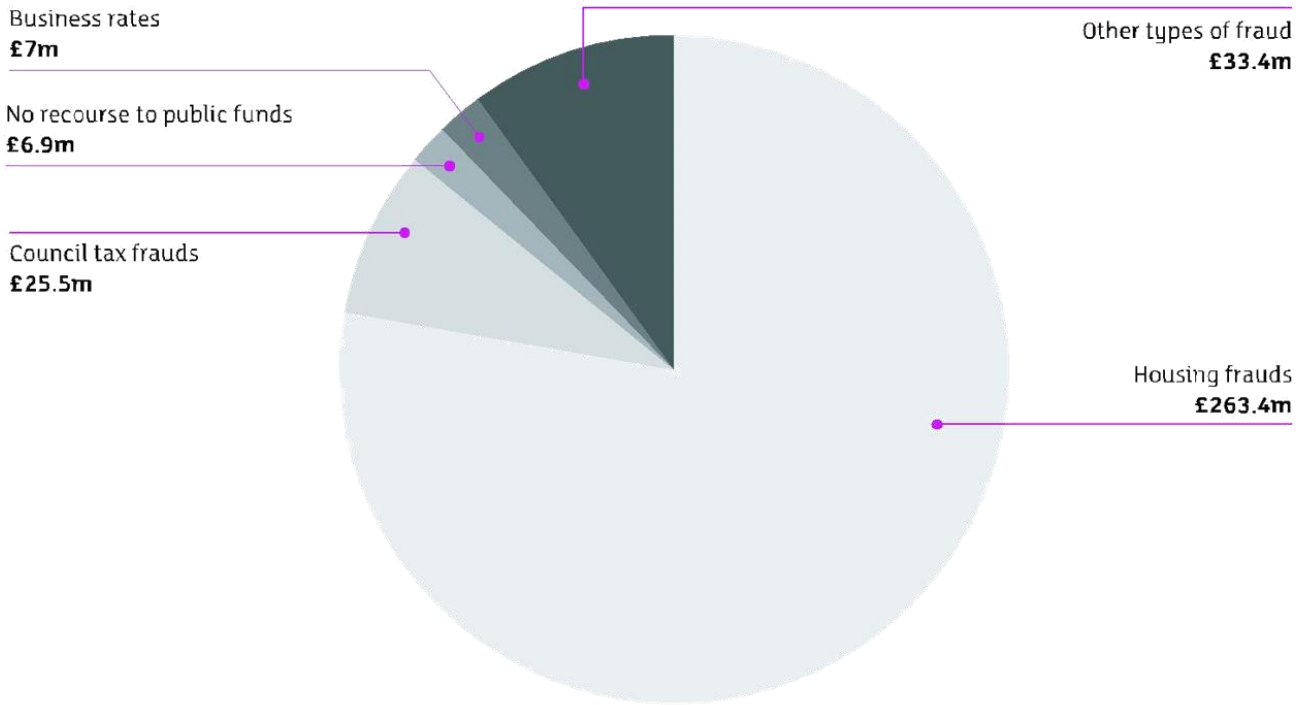


CIPFA estimates that across local authorities more than 75,000 frauds have been detected or prevented in 2016/17 with a total value of £336.2m. The number of fraud cases investigated or prevented dropped in 2017, but the average value per fraud increased from £3,400 to £4,500; the reason for this could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

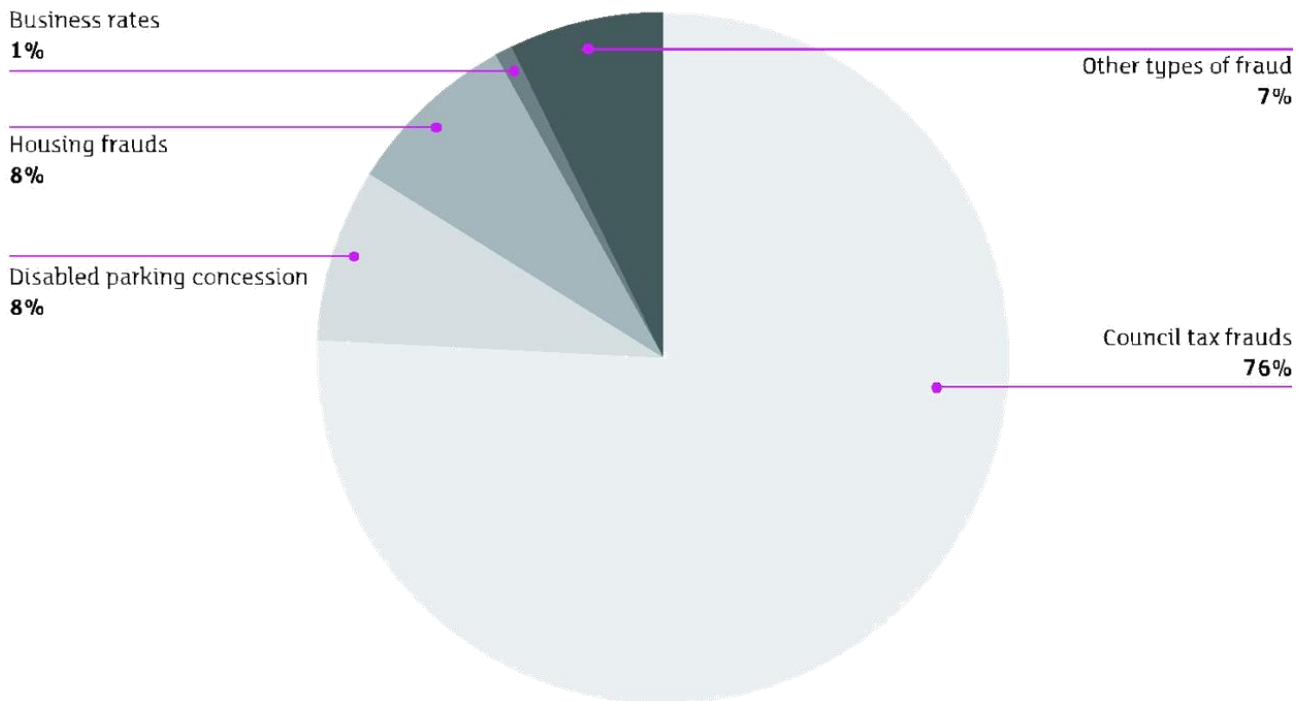
The CFaCT also revealed the following:

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

**Estimated value of fraud detected**



**Detected fraud by estimated volume**





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

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

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

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

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

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

This report highlights:

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

## Recommendations

CIPFA recommends that organisations:

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

## Main Types of Fraud

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

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

### Council tax

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

Council tax fraud is split into three areas:

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

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

#### Estimated council tax fraud

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

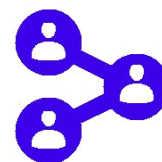
When asked about the perceived highest fraud risk areas, SPD was third behind procurement and adult social care.

### Perceived highest risk areas



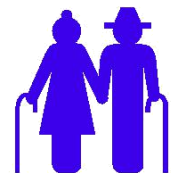
**3**

Single person discount



**2**

Procurement



**1**

Adult social care

## Housing and tenancy fraud

Housing and tenancy fraud takes a number of forms including:

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

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

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

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

### Estimated housing fraud

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

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

# 1,284

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

# £263.4m

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

### Estimated housing fraud



Right to buy  
**£111.6m**



Sublet  
**£78.5m**



Other  
**£73.3m**

## Disabled parking (Blue Badge)

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

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

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

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

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

### Estimated Blue Badge fraud

Volume	Value
5,751	£4.3m

#### Blue Badge prosecution

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

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

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

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



**£3m**  
London



**£1.4m**  
rest of the UK

## Adult social care

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

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

Investigations cover cases where:

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

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

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

### Estimated adult social care fraud

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

\*Other includes internal fraud or identity fraud.

### Fraud by abuse of position

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

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

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

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

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

## Other Types of Fraud

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

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

### Business rates

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

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

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

#### Estimated business rate fraud

Volume	Value
662	£7.0m

### Insurance fraud

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

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

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

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

#### Estimated insurance claim fraud

Volume	Value
371	£5.1m

## Procurement fraud

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

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

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

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

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

## No recourse to public funds



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

## Estimated procurement fraud

Volume	Value
197	£6.2m

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

## Welfare assistance and no recourse to public funds

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

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

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

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

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

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



## Economic and voluntary sector (grant fraud)

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

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

## Payroll, expenses, recruitment and pensions

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

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

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

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

# 40%

of payroll cases involved insider fraud

## Estimated payroll, expenses, recruitment and pension fraud

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

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

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

Action Fraud states that:

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

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

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

# 90%

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

## Serious and organised crime

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

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

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

# 91%

the percentage of respondents who share data externally

---

## Whistleblowing

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

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

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

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

## Counter Fraud Resources

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

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

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

### Hertfordshire shared counter fraud service

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

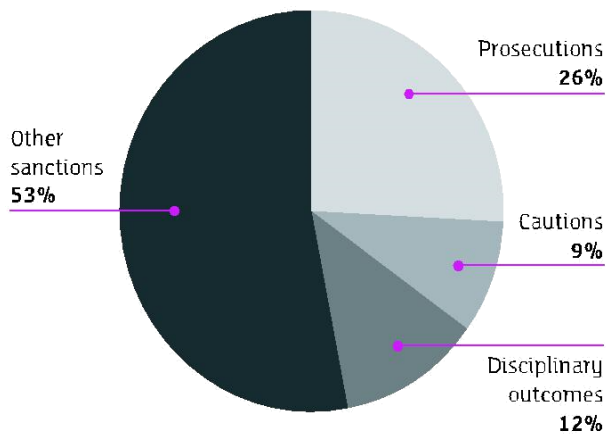
The combined service has provided flexibility and a significant return on investment for those involved, and the reduction in duplication across common policy approaches has resulted in a more efficient use of resources.

## Sanctions

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

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

### Outcome of sanctions



The chart indicates that:

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

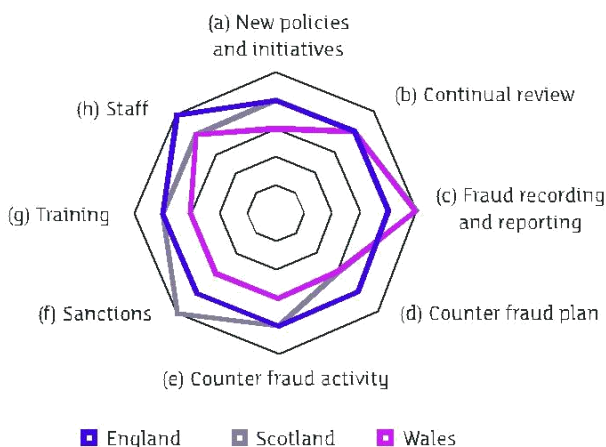
# Fighting Fraud and Corruption Locally

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

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

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

## Counter fraud controls by country



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

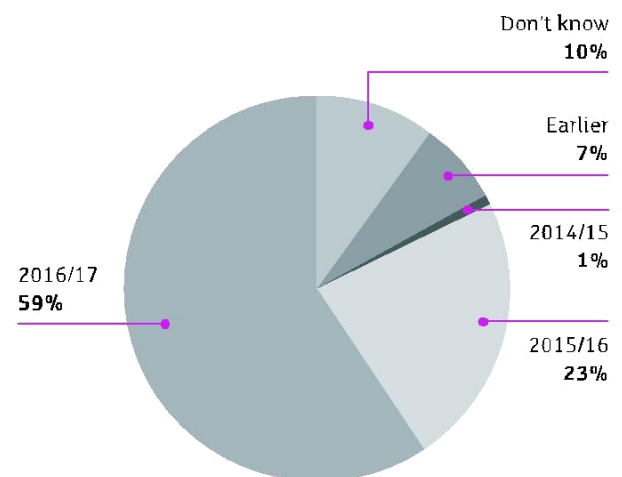
The FFCL Strategy recommends that:

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

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

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

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



## Acknowledgements

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

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

## Appendix 1: Estimates and Fraud Types

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

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

## Appendix 2: Research Methodology

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

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

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





Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

[www.cipfa.org](http://www.cipfa.org)

The Chartered Institute of Public Finance and Accountancy.  
Registered with the Charity Commissioners of England and Wales No 231060





## **For publication**

### **Progress made on the implementation of the Annual Governance Statement Action Plan 2016/17**

---

Meeting:	Standards and Audit Committee
Date:	7 February 2018
Cabinet portfolio:	Cabinet Member for 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 2016/17 Annual Governance Statement Action Plan.

### **2.0 Recommendations**

- 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 2017 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. Progress has been made however there is still work ongoing in respect of a number of the areas identified. There are 10 identified actions in total, of these 4 actions are on track for completion by the target date 1 action is no longer applicable, 3 actions are behind target ( Non housing property repairs, health and safety and procurement) and 2 actions have revised time schedules (partnerships and public private partnership performance indicators).
- 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 Recommendations**

- 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 2016/17 Annual Governance Statement Action Plan so that further action can be identified if this is not satisfactory.

#### **Decision information**

<b>Key decision number</b>	N/A
----------------------------	-----

<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	This report links to the Council's priority to provide value for money services.

### **Document information**

<b>Report author</b>	<b>Contact number/email</b>
<b>Jenny Williams – Internal Audit Consortium Manager</b>	<b>01246 345468</b>  <b>Jenny.williams@chesterfield.gov.uk</b>
<b>Background documents</b>	
These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	
Appendix A	Annual Governance Statement 2016/17 Action plan- Progress at the end of December 2017.

This page is intentionally left blank

**CHESTERFIELD BOROUGH COUNCIL – ANNUAL GOVERNANCE STATEMENT 2016/17**  
**ACTION PLAN - PROGRESS AS AT THE END OF DECEMBER 2017**

	Governance Issue	Action Proposed				Progress by end of December 2017
		Description	By Date	Officer	Priority	
1  Page 127	Budget – There is a budget gap as identified in the Medium Term Financial Plan 2017/18 – 2019/20. The general fund and the Housing Revenue Account are both under increasing pressure.	<p>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:-</p> <ul style="list-style-type: none"> <li>• Financial Planning Group</li> <li>• Great Place Great Service Board</li> <li>• Corporate Cabinet and CMT workshops</li> <li>• Monthly budget monitoring reports to Service Managers</li> <li>• Quarterly budget monitoring reports to the Council, Cabinet and Scrutiny Forum</li> </ul> <p>Regular dialogue with the trade unions.</p>	On going	Members / CE / Executive Directors/ Director of Finance and Resources	H	<p>The Council has been able to project a 'draft' balanced General Fund (GF) budget for 2017/18 of circa £996k turning around an initial project deficit of (£208k) into a surplus. Plans are being developed to balance the budget for 2018/19, currently showing a small surplus of £55k. The Council faces then an increase in the deficit each year, rising to £1.5m in 2021/22. Further savings and income generation plans are to be developed to address the deficit.</p> <p>The Council has yet to approve the 10yr business plans for IT investment excluded from the figures above. This could add £500k on average revenue costs to the GF budget pressures and deficits each year excluding capital spend</p> <p>The HRA is projecting a balanced position in the medium term following a recent stock condition survey, changes to our rents (moving to a 52 week rent year), voids (marketing, local lettings policy and lettable standard) and repairs (tenants repairing obligations and response times) policies and amendments being made to base assumptions within the HRA Business Plan Model to reflect changes in national housing and economic policy. As a result of these changes the working balance is showing surpluses throughout the life of the Business Plan (30 years). These surpluses never dip below £6 million, which are above our minimum working balance of £3million. This means that the HRA will be able to repay its outstanding debt at this point if required to do so.</p>

	Governance Issue	Action Proposed				Progress by end of December 2017
		Description	By Date	Officer	Priority	
2	Data Protection – there is still a significant amount of work 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.	Resources have been allocated to address the weaknesses outstanding. An Information Assurance officer has been appointed.	April 2018	Customers, Commissioning and Change Manager	H	The council has appointed new staff within the Information Assurance team and has developed a clear action plan which will ensure its compliance against the new General Data Protection Regulations which come into force from May 2018. Key milestones in this plan are currently on track.
3	IT Council's IT infrastructure is in need of review to ensure that it is fit for purpose. Although PSN compliance has been achieved there is a need to ensure that this is retained and that IT can successfully support the Council's transformation projects.	The Council has initiated a contractual review of the PPP services and is requesting a 'deep dive' into the ICT service provided by Arvato. Results of the contractual review will be received during the 1 <sup>st</sup> quarter of 2017 and will inform changes required.	Sept 17	Customers, Commissioning and Change Manager	H	The Council has completed an external review of its ICT service and a three year improvement plan has been developed which will ensure that the Council's ICT infrastructure is fit for purpose. The council has also strengthened its 'intelligent client' function relating to the ICT service, which will aid decision making and best value evaluation. PSN accreditation has been successfully achieved and this will remain in place until January 2019.



	Governance Issue	Action Proposed				Progress by end of December 2017
		Description	By Date	Officer	Priority	
4	Plans to become a full member of the Sheffield City Region Combined Authority have been delayed following a legal challenge from Derbyshire County Council. This has resulted in implementation of the SCR devolution deal being delayed as well as any decision about membership or Mayoral elections.	A further public consultation exercise will be required during 2017. The Council's Chief Executive and Executive Directors will continue to assist and support the SCR with this project to ensure that the best deal is obtained for Chesterfield residents.	March 18	Senior Leadership Team	H	In July 2017, the council altered its resolved position in light of a number of changes. It agreed to continue supporting active non-constituent membership of the SCR Combined Authority rather than full membership, whilst noting that the resulting lack of full access to devolution deals would have a negative impact on communities in Chesterfield. Following further discussion of the devolution proposals at the Sheffield City Region (SCR) Combined Authority, no further public consultation has been conducted during 2017. A mayoral election is scheduled for May 2018, but this will be for a mayor with a remit across the 4 south Yorkshire authorities within SCR, not Chesterfield (or any other non-constituent areas). The council will continue to draw down approved funding from SCR, which includes £11.38m of SCR Infrastructure Fund allocation to date in addition to grants directly to local businesses of at least £1.37m to date and investment in skills programmes. It is also still eligible to bid for funding from current programmes, which includes two successful Housing Fund bids for a total of £3.35m and a further £2.2m bid under consideration.

	Governance Issue	Action Proposed				Progress by end of December 2017
		Description	By Date	Officer	Priority	
5	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. This issue has been carried forward from 2015/16.	Kier has committed to providing additional resource to bring this work back on track as it has continued to be de-prioritised in relation to other work. This is now likely to be used to inform a fuller re-setting of the property repairs fund leading into the budget setting process for 18/19.	February 18	Executive Director	H	A ten year capital maintenance plan is being developed by Kier for the Council's principle assets. The first dozen assets have been assessed and costed for capital works. The plan is undergoing review with further work for the next tranche of assets.

	Governance Issue	Action Proposed				Progress by end of December 2017
		Description	By Date	Officer	Priority	
6	There has been a lack of capacity to ensure that health and safety arrangements are fit for purpose. This is as a result of major projects in 2016/17 such as the town hall restack that has identified asbestos issues and the opening of the Council's new Queens Park Leisure Centre and destruction of the old leisure centre.	The Health and Wellbeing Manager has produced an action Plan to resolve the issues that will be monitored for completion by the Standards and Audit Committee and the Health and Safety Committee.	Sept 17	Health and Wellbeing Manager	H	<p>This issue relates to the Corporate capacity only and therefore doesn't impact on departmental H&amp;S. Some of the actions have been completed, some part completed, and some are uncompleted. The departure of the Health and Wellbeing Manager has added further resourcing pressures.</p> <p>The new Assistant Director with responsibility for this area should start in April 2018.</p> <p>A revised staffing structure, approach to business as usual and an action plan with resource requirements to deliver is being developed, in consultation with Health and Safety reps and will be presented to elected members for consideration during February 2018. This issue and agreed actions should therefore be reviewed subject to the decision taken i.e. March 2018 and again in April 2018 when the Assistant Director is in post.</p>

	Governance Issue	Action Proposed				Progress by end of December 2017
		Description	By Date	Officer	Priority	
7	The Performance Monitoring framework requires embedding	The Policy and Communications Service has now been restructured with resource being identified to embed the framework. Recruitment is taking place at the moment.	End Sept 17	Policy and Communications Manager	M	<p>Quarterly performance monitoring and improvement now in place. This includes challenge at Finance and Performance Board and Overview and Scrutiny Forum.</p> <p>At the half year position 74% of key council plan measures have either been achieved or on target for completion during 2017/18. However progress varied across priority areas with 100% for vibrant economy, 67% for quality of life and 56% for value for money. Draft performance data for Q3 indicates that challenge at Finance and Performance Board and Scrutiny has improved performance again at quarter 3 with particular focus on quality of life and value for money.</p> <p>Management seminar in February 2018 will be focused on the performance golden thread – Council Plan – Service Plan - PDRs to continue to improve performance management in 2018/19.</p>

	Governance Issue	Action Proposed				Progress by end of December 2017
		Description	By Date	Officer	Priority	
8	The Public Private Partnership performance indicators require review to ensure that they focus on what the Council wants to achieve	The review of services within the PPP is currently being scoped. It is intended that the future delivery of the services will be partly defined by the review and therefore any changes to PIs will be considered after that output has been received.	End June 2017	Executive Director	M	The PPP is due to end in 2020. The Council could decide to end the PPP early (with penalties), retain the arrangement until it's natural end, or extend the running of the contract to 2025. The review of the PPP is close to completion and this will inform discussions with Political leadership that will determine the Council's position regarding the future of the PPP. This decision could fundamentally change the requirements of the Council and therefore relevant discussions will take place regarding the P.I.s following that i.e. June 2018.
9	Monitoring arrangements for partnerships require review and update.	The Partnership Strategy is to be reviewed in 2017/18 and significant partnerships re-assessed. Discussions will be held with the new political leadership.	End Sept 2017	Policy and Communications Manager	M	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.

	Governance Issue	Action Proposed				Progress by end of December 2017
		Description	By Date	Officer	Priority	
10	Procurement – progress has been made during 2016/17 however the procurement Strategy and training still need to be disseminated to staff	The Procurement Strategy is due to be approved by Cabinet in March 2017. Procurement training is to be added to the new E learning system that is in the process of being launched.	End June 2017	Customers, Commissioning and Change Manager	M	Formal adoption of the draft procurement strategy has been paused whilst Chesterfield Council negotiates a change to the scope of their existing procurement contract with the NHS. The strategy will be adopted during the 1 <sup>st</sup> quarter of 2018/19. A formal review of our procurement contract will be completed during 2018/19

## **For publication**

### **Constitution Update**

---

Meeting: Standards and Audit Committee

Date: 7 February 2018

Cabinet portfolio: Cabinet Member for Governance

Report by: Monitoring Officer

---

## **For publication**

---

### **1.0 Purpose of report**

- 1.1 To inform members about, and seek confirmation of, updates to the Constitution.

### **2.0 Recommendations**

- 2.1 That the Committee notes the updates to the Constitution.
- 2.2 That the current published version of Constitution be confirmed.

### **3.0 Background**

- 3.1 The Constitution is a key document, required by law, which sets out the principal powers, duties and procedures of the Council. It also sets out to whom decision making over the Council's various functions is delegated.
- 3.2 The current form of Constitution has been in place since the early 2000s and follows a government model proposed at the time. Most council constitutions follow a similar format, though some are now moving away from it. The constitution is publicly available on the Council's website.

- 3.3 The Constitution needs to be changed and updated from time to time to ensure it reflects current practices, functions and structures and efficient working of the authority.
- 3.4 Changes to accord with the law are incorporated with periodic reviews of the parts of the constitution and logical changes resulting from restructures usually follow automatically. Minor corrections/changes and clarified/simplified drafting are also carried out from time to time by the Monitoring Officer.
- 3.5 While Full Council will consider the main changes, the less significant changes requiring approval are delegated to this Committee. Various consequential amendments may need to be made to other parts the Constitution, numbering etc to ensure consistency and reflect these changes and these are the responsibility of the Monitoring Officer.
- 3.6 This Committee last considered and approved changes to the Constitution in September and then in November 2017. This report is for the Committee to note various recent changes and to confirm the current version of the Constitution.

#### **4.0 Rolling Review**

- 4.1 In addition to routine updates and changes, since 2017 the Monitoring has been carrying out a formal rolling review of each part of the constitution on a bi-monthly basis. This is to help updates to be proactive rather than just reactive. Some Parts have been reviewed and others are pending.

#### **5.0 Schedule of Changes**

- 5.1 Since 2011 a schedule of changes is published with the Constitution. The most recent version is in the Appendix to this report.
- 5.2 Since this Committee last considered the Constitution, reviews and updates were as follows:

##### **Rolling Review**

Part 1: Simplified, updated and improved layout.



*Part 2: Review pending*

*Part 3: Review pending*

*Part 4: Review pending*

Part 5 – Reviewed – updated.

Part 6 – Reviewed – up to date.

Part 7 – Reviewed – up to date.

Part 8 – Reviewed – up to date. Broken hypertext link repaired.

## **Updates**

All Parts:

Changes of reference to Service Managers to Assistant Directors

Part 3:

- Addition of Corporate Enforcement (as approved by Leader) to portfolio of Cabinet Member for Governance and appropriate delegations
- Correcting delegation on appointments to outside bodies to reflect historic and current practice of delegation to Cabinet Member for Governance,
- Updating delegations on Revenues and Benefits to reflect current officer structure (Director of Finance and Resources)

5.3 The published version of the Constitution is on the Council's website at:

<https://www.chesterfield.gov.uk/your-council/the-council/the-constitution.aspx>

## **6.0 Human Resources/people management implications**

6.1 The changes enable more efficient working of the authority, reflecting the current structure and best practice. Officers and members are able to operate within a clear framework.

## **7.0 Financial implications**

7.1 The report proposes changes which will lead to greater efficiency and cost effectiveness in decision making.

## **8.0 Legal and data protection implications**

8.1 The Council must have a Constitution and this must be updated periodically to reflect current practices and decision making structures: it is a living document. Some changes flow from, eg changes in legislation or decisions made by the council or restructured posts replacing previous posts. Other changes need formal approval.

8.2 While the main Constitution changes are authorised by full Council, Council has previously delegated authority to Standards and Audit Committee to approve more routine Constitution changes.

## 9.0 Risk management

9.1 This report concerns updates to the Constitution to enable efficient and legal operation of Council decision making, to strengthen internal audit procedures and to introduce more flexible and efficient procedures for signing Council documents.

Description of risk	Impact	Likelihood	Mitigating Action	Resulting Impact	Resulting Likelihood
Constitution not reflect current requirement of the Council			Regular review of all parts of the Constitution and appropriate proactive and reactive amendment.		

## 10.0 Alternative options and reasons for rejection

10.1 **Do not change the Constitution:** The Constitution must be updated from time to time to reflect the current structure and legal functions and appropriate procedures. The Constitution is required by law and must be reviewed on a rolling basis.

## 11.0 Recommendations

11.1 That the Committee notes the updates to the Constitution.

11.2 That the current published version of Constitution be confirmed.

## 12.0 Reason for recommendations

12.1 To ensure effective and efficient operation of the Council.

### Decision information

<b>Key decision number</b>	N/A
<b>Wards affected</b>	All
<b>Links to Council Plan priorities</b>	N/A

### Document information

<b>Report author</b>	<b>Contact number/email</b>
<b>Gerard Rogers – Monitoring Officer</b>	<b>01246 345310</b> <b>gerard.rogers@chesterfield.gov.uk</b>
<b>Background documents</b> These are unpublished works which have been relied on to a material extent when the report was prepared.	
<b>Appendices to the report</b>	

This page is intentionally left blank

## Constitution - Document Control

Brief information about updates to each Part of the Constitution  
Autumn 2011 to January 2018

Part Page 141	Date of Change (most recent first)	Version	Change	Annual Review/ Update	By <i>Italics: authority for change (since September 2017)</i> <i>C = Council</i> <i>S&amp;A = Standards and Audit Committee</i> <i>U = other update</i> <i>OC = other correction</i>
Part 1	November 2017	23	Change of Service Managers to Assistant Directors		<i>U November 17</i> Gerard Rogers
	November 2017	23	Simplified, updated and improved layout	Reviewed - updated	Gerard Rogers
	May 2017	19	Incorporate link to new Cabinet Member chart and photos		<i>OC May17</i> Gerard Rogers
	September 2013	19	Delete reference to discontinued Community Forums and incorporate reference to Community Assemblies.		Gerard Rogers

Part	Date of Change (most recent first)	Version	Change	Annual Review/ Update	By <i>Italics: authority for change (since September 2017)</i> <i>C = Council S&amp;A = Standards and Audit Committee U = other update OC = other correction</i>
			Incorporate new Executive Member chart and photos		
	December 2012	18	New Standards arrangements		Gerard Rogers
	March 2012	17	New Scrutiny Committees and portfolios		Gerard Rogers
Part 2 Page 142	November 2017	28	Change of Service Managers to Assistant Directors		<i>U November 17</i> Gerard Rogers
	September 2017	27	Alternative arrangements for attestation of documents under seal. Clarification of Standards and Audit Committee power to call officers to committee		<i>S&amp;A 20/09/17</i> Gerard Rogers
	November 2016	26	Modified arrangements for attestation of documents under seal		<i>C 12/10/16</i> Gerard Rogers
	February 2015	25	Insert Chief Finance Officer as person authorised under Statements of Truth (accidental omission)		Gerard Rogers
	December 2014	25	New senior management structure Delegation of many constitution amendments to		Gerard Rogers

Part	Date of Change (most recent first)	Version	Change	Annual Review/ Update	By <i>Italics: authority for change (since September 2017)</i> <i>C = Council S&amp;A = Standards and Audit Committee U = other update OC = other correction</i>
Page 143			Standards and Audit Committee		
	December 2012	22	New Standards arrangements		Gerard Rogers
	February 2012	21	Revised Scrutiny Rules		Gerard Rogers
Part 3	January 2018	36	Addition of Corporate Enforcement (as approved by Leader) to portfolio of, and amending delegation on appointments to outside bodies to reflect historic practice to, Cabinet Member – Governance. Updating delegations on Revenues and Benefits to reflect current officer structure (Director of Finance and Resources)		<i>U, OC January 18</i> Gerard Rogers
	December 2017	35	Change of Service Managers to Assistant Directors		<i>U December 17</i> Gerard Rogers
	November 2017	34	Revisions to planning delegations		<i>S&amp;A 22/11/17</i> Gerard Rogers
	September 2017	33	Authority to acquire and dispose of land		<i>S&amp;A 20/09/17</i> Gerard Rogers

Part	Date of Change (most recent first)	Version	Change	Annual Review/ Update	By <i>Italics: authority for change (since September 2017)</i> C = Council S&A = Standards and Audit Committee U = other update OC = other correction
Page 144	July 2017	32	Correcting error in TC&VE parking delegation		Gerard Rogers
	June 2017	31	Removing duplicate delegations in Governance portfolio		Gerard Rogers
	June 2017	31	Updating E&G committee member number and exec member - 2015 change not previously incorporated		Gerard Rogers
	May 2017	31	Changes to portfolios		Gerard Rogers
	March 2017	30	Correcting delegation omission for Cabinet Member Economic Growth (EG0000) and adding investigatory powers to Governance portfolio		Gerard Rogers
	December 2016	29	Revised Portfolios		Gerard Rogers
	November 2016	28	New financial delegations, GP:GS delegations, and delegations for 5 year short term tenancies		<i>C 12/10/16</i> Gerard Rogers
	October 2016	27	Revisions to reflect new Corporate Management Team structure		Gerard Rogers
	September 2015	25	Corrections to Portfolios and delegation renumbering		Gerard Rogers



Part	Date of Change (most recent first)	Version	Change	Annual Review/ Update	By <i>Italics: authority for change (since September 2017)</i> <i>C = Council S&amp;A = Standards and Audit Committee U = other update OC = other correction</i>
Page 145	July 2015	25	Revised Portfolios and Service Managers		Gerard Rogers
	04 September 2013	24	Removal of delegations to discontinued Community Forums and incorporation of references to Community Assemblies. Correction of P140D delegations and updating reference to relevant planning staff in line with structure reviews		Gerard Rogers
	31 July 2013	23	Routine and approved updates to 31 July 2013. Correction of delegation to incorrect Head of Service page 158		Gerard Rogers
	11 October 2012	22	Delegations approved by Full Council (to 10/10/12) Correction of incorrect reference to prejudicial interest on page 13 (10/01/13)		Gerard Rogers
	20 March 2012	21	Health Inequalities delegations moved to correct portfolio (Leisure, Culture and Tourism from Customers and Communities)		Gerard Rogers

Part	Date of Change (most recent first)	Version	Change	Annual Review/ Update	By <i>Italics: authority for change (since September 2017)</i> <i>C = Council S&amp;A = Standards and Audit Committee U = other update OC = other correction</i>
	Autumn 2011		New political structure, portfolios and senior officer structure, changes resulting from Corporate Services Contract		Gerard Rogers
Part 4 Page 146	December 2017	28	Change of Service Managers to Assistant Directors		<i>U December 17</i> Gerard Rogers
	September 2017	27	Amended Financial Procedures (Internal Audit)		<i>S&amp;A 20/09/17</i> Gerard Rogers
	November 2016	26	New Financial Procedures		<i>C 12/10/16</i> Gerard Rogers
	July 2016		Corrections to Contract Procedure Rules		Gerard Rogers
	December 2014		Changes to Standing Orders Changes to Contract Procedure Rules Changes to Senior Management Team		Gerard Rogers
	July 2013		Executive Arrangements 2012 and minor corrections		Gerard Rogers

Part	Date of Change (most recent first)	Version	Change	Annual Review/ Update	By <i>Italics: authority for change (since September 2017)</i> <i>C = Council S&amp;A = Standards and Audit Committee U = other update OC = other correction</i>
Page 147			relating to Scrutiny		
	December 2012	19	New Standards arrangements		Gerard Rogers
	February 2012	18	New Scrutiny Procedure Rules		Gerard Rogers
Part 5	December 2017	22	Change to Assistant Directors		<i>U December 17</i> Gerard Rogers
	November 2017	21	General updates	Reviewed and updated	Gerard Rogers
	September 2013	20	Community Assemblies and removal of reference to government proposals for a statutory Employee Code		Gerard Rogers
	December 2012	19	New Standards arrangements		Gerard Rogers
Part 6	September 2017			Reviewed – currently up to date	Gerard Rogers
	January 2017	24	Updates to member allowance scheme from 01/04/16		Gerard Rogers
	April 2015	23	Removal of reference to Deputy Mayor Allowance		Gerard Rogers

Part	Date of Change (most recent first)	Version	Change	Annual Review/ Update	By <i>Italics: authority for change (since September 2017)</i> C = Council S&A = Standards and Audit Committee U = other update OC = other correction
	October 2013	19	Updated member allowance scheme		Sharon Goldthorpe
	January 2012	18	Updated member allowance scheme		Sharon Goldthorpe
Part 7	November 2017		Change of Service Managers to Assistant Directors		<i>U November 17</i> Gerard Rogers
Page 148	September 2017			Reviewed – currently up to date	Gerard Rogers
	May 2017	n/a	Changes to CMT		Gerard Rogers
	December 2016	n/a	Changes to CMT		Gerard Rogers
	July 2016	n/a	Changes to CMT		Gerard Rogers
	July 2015	n/a	Changes to CMT		Gerard Rogers
	January 2015	n/a	New Senior Leadership Team and Corporate Management Team		Gerard Rogers

Part	Date of Change (most recent first)	Version	Change	Annual Review/ Update	By <i>Italics: authority for change (since September 2017)</i> <i>C = Council S&amp;A = Standards and Audit Committee U = other update OC = other correction</i>
Part 8	September 2017			Reviewed – repaired broken link to outside appointments	<i>OC Sept 2017</i> Gerard Rogers
	November 2012	n/a	Linked member details to webpages		Gerard Rogers

This page is intentionally left blank