Public Document Pack

CHESTERFIELD
BOROUGH COUNCIL

Please ask for Amanda Clayton
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The Chair and Members of Standards
and Audit Committee

29 January 2020

Dear Councillor,

Please attend a meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 5 FEBRUARY 2020 at 2.00 pm in Committee Room 1, Town Hall, Rose Hill, Chesterfield, the agenda for which is set out below.

AGENDA

Part 1(Public Information)

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

2. Apologies for Absence

3. Minutes (Pages 3 - 6)

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 Paragraph 1 of Part 1 of Schedule 12A of the Act".

Part 2 (Non Public Information)

5. Rufford Close Update

6. Annual Report - Standards of Conduct (Pages 7 - 16)

7. Re-admission of the public

8. Summary of Internal Audit Reports Issued (Pages 17 - 24)

9. 2018/19 Annual Governance Statement Action Plan Update (Pages 25 - 42)

10. CIPFA Fraud and Corruption Tracker Survey 2019 (Pages 43 - 74)

11. National Fraud Initiative (Pages 75 - 88)

12. Treasury Management Strategy 2020/21 (Pages 89 - 118)

Yours sincerely,

Local Government and Regulatory Law Manager and Monitoring Officer

STANDARDS AND AUDIT COMMITTEE

Wednesday, 27th November, 2019

Present:-

Councillor Rayner (Chair)

Councillors	Brady Kellman T Murphy	Councillors	Snowdon Brittain

*Matters dealt with under the Delegation Scheme

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

No declarations of interest were received.

24 APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor Caulfield.

25 MINUTES

RESOLVED –

The Minutes of the meeting of the Standards and Audit Committee held on 25 September, 2019 were agreed as a true record and signed by the Chair.

26 SUMMARY OF INTERNAL AUDIT REPORTS ISSUED

The Internal Audit Consortium Manager presented a report summarising the internal audit reports issued during the period 17 August 2019 to 1 November 2019, in respect of reports issued relating to the 2019/20 internal audit plan.

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

- ‘Substantial Assurance’ – 1
- ‘Reasonable Assurance’ – 7
- ‘Limited Assurance’ – 1

The committee was informed that no fraud had been discovered.

The Town Centre Operations Manager attended to discuss the audit report carried out on Car Parks Income. It was clarified that the Limited Assurance status was due to the recommendations from the previous audit, in 2017, not having been implemented.

The Town Centre Operations Manager gave an update on each recommendation including the steps taken and the future plans. The Chair requested that a progress report be submitted to the January meeting of the committee and then a full report be presented to the April meeting.

It was suggested that the date of the previous audit would be a useful inclusion in the report for the new members of the committee.

The Town Centre Operations Manager was also asked to give an update on a recommendation from a previous audit report concerning procurement at the Market Hall Café. It was explained that a central procurement exercise was underway across all the council’s catering outlets to achieve cost savings through rationalisation and to increase operating profits. The tenders would be processed through the DSFS system with key consideration given to customer preferences, quality and cost.

*** RESOLVED –**

That the report be noted.

27 <u>MAZARS 2019/2020 PROGRESS REPORT</u>

The external auditor presented an update to the committee. The following key points were highlighted;

- A new audit director had been appointed, Mark Dalton, who would attend the February committee meeting.
- There had been no significant changes to the risk profile.

- Mazars had undertaken one piece of non-audit related work for the council.

The committee's attention was also drawn to a selection of recent publications relevant to their audit function.

***RESOLVED –**

That the update report be noted.

28 CSPL REVIEW OF LOCAL GOVERNMENT ETHICAL STANDARDS - AMENDMENTS TO PROCEDURES

The Deputy Monitoring Officer presented a report to the committee outlining amendments to the Council's procedures and guidance following the review by the Committee on Standards in Public Life (CSPL) on local government ethical standards. It was explained that the review had previously been considered by the committee in April 2019.

Members discussed the wording of the recommendations in appendix 2 and the Chair and Deputy Monitoring Officer responded to questions from Members.

***RESOLVED –**

That the amendments be approved.

29 LOCAL GOVERNMENT ACT 1972 - EXCLUSION OF PUBLIC

RESOLVED –

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

30 PROCUREMENT

The Client Officer presented a report to the committee on the external procurement contract. The committee heard that the current procurement contract was agreed in December 2015 and since then had been impacted by a number of significant changes including the responsibility

for managing the contract moving between the Council's service areas and the NHS team becoming a wholly owned subsidiary. In September 2019 the contract management responsibility was returned to the Customers, Commissioning and Change portfolio.

The Client Manager was working collaboratively with the new Derbyshire Support and Facilities Service (DSFS), meeting with them every two weeks. The DSFS had put a new senior procurement partner in place with local government experience and had committed to spending more time with CBC officers to build relationships and understanding. The Council's Corporate Management Team had agreed that procurement awareness training would be mandatory for all Service Managers.

The committee heard that the new DSFS unit was continuing to build capacity, the contract register was robust and the DSFS were committed to deliver the outcomes agreed in their contract. The Contract Manager would monitor the situation but had seen reassuring improvements.

The Assistant Director for Customers, Commissioning and Change (CCC) advised the committee that procurement had moved into the CCC service area in order to provide a level of focus. A three-year improvement programme was underway which would be underpinned by the ICT investments being made throughout the Council. It was recognised that the Council was not yet receiving the support it required from the contract but that would be a key requirement moving forward.

The Chair agreed that the process was a slow one but necessary in order to achieve the best possible outcome. It was requested that the Client Manager report back to the committee following the audit update due before April 2020 to give an overview of the progress made.

***RESOLVED –**

That a report be made to the committee following the audit update in Spring 2020.

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

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For publication

Summary of Internal Audit Reports Issued 2019/20

Meeting:	Standards and Audit Committee
Date:	5th February 2020
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 2nd November 2019 to 10th January 2020 in respect of reports issued relating to the 2019/20 internal audit plan.

2.0 Recommendation

2.1 That the report be noted.

3.0 Report details

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

3.2 Attached, as Appendix A, is a summary of reports issued covering the period 2nd November 2019 to 10th January 2020, for audits included in

the 2019/20 internal audit plan. This period 5 reports have been issued 4 with Substantial assurance and one with reasonable assurance.

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

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

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

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

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

4.0 Alternative options and reasons for rejection

4.1 The report is for information.

5 Recommendation

5.1 That the report be noted.

6 Reasons for recommendation

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

Decision information

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

Document information

Report author	**Contact number/email**
Jenny Williams – Internal Audit Consortium Manager	**01246 345468** **Jenny.williams@chesterfield.gov.uk**
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix A	Summary of Internal Audit Reports Issued

Appendix A

Chesterfield Borough Council – Internal Audit Consortium

Report to Standards and Audit Committee

Summary of Internal Audit Reports Issued 2nd November 2019 to 10th January 2020

Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
015	Land Charges income	To ensure that fees and charges are levied correctly, that banking is prompt and to review a sample of searches.	Substantial	13/11/19	4/12/19	Report Accepted	0	0
016	Housing Benefits / Council Tax Support	To ensure all payments are accurate and timely in line with benefit regulations	Substantial	21/11/19	2/12/19	Report Accepted	0	0
017	Cash and Bank	To ensure that all income is receipted and banked promptly and accurately	Substantial	26/11/19	17/12/19	Report Accepted	0	0

Report Ref No.	Report Title	Scope & Objectives	Assurance Level	Date			Number of Recommendations	
				Report Issued	Response Due	Response Received	Made	Accepted
018	Accounts Receivable	To ensure that invoices are raised in a timely manner and that adequate debt collection procedures are in place.	Substantial	6/12/19	30/12/19	18/12/19	1L	1
019	Accounts Payable	To ensure that all invoices are paid in an accurate and timely manner and are supported by an official order.	Reasonable	18/12/19	14/01/20	15/01/20	4L	4

H = High Priority
M = Medium Priority
L = Low priority

Note 1 Response not due at time of writing report

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For publication

Progress made on the implementation of the Annual Governance Statement Action Plan 2018/19

Meeting:	Standards and Audit Committee
Date:	5th February 2020
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 Purpose of report

1.1 To provide members with an update in respect of the progress made towards implementing the 2018/19 Annual Governance Statement Action Plan.

2.0 Recommendation

2.1 That the report be noted.

3.0 Report details

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

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

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

3.4 In April 2019 this Committee approved the Annual Governance Statement and Action Plan and agreed that progress on the action plan would be monitored by the Corporate Management Team (CMT)

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

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

4.0 Alternative options and reasons for rejection

4.1 This report is for information.

5.0 Recommendation

5.1 That the report be noted.

6.0 Reasons for recommendation

6.1 To inform Members of the progress made in respect of implementing the 2018/19 Annual Governance Statement Action Plan so that further action can be identified if this is not satisfactory.

Decision information

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

Document information

Report author	**Contact number/email**
Jenny Williams – Internal Audit Consortium Manager	**01246 345468** **Jenny.williams@chesterfield.gov.uk**
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix 1	Annual Governance Statement 2018/19 Action plan- Progress at the end of December 2019.

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Appendix 1

CHESTERFIELD BOROUGH COUNCIL – ANNUAL GOVERNANCE STATEMENT 2018/19
ACTION PLAN - PROGRESS AS AT THE END OF DECEMBER 2019

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
1	Budget – many budget risks have been identified:- • Business rate pooling • Business rate appeals, valuation changes • New homes bonus allocations • ICT savings not being delivered • The outcome of the Governments Fair Funding and changes to business rate funding from 2020/21 is still not clear • Wage and staffing cost pressures • Escalating energy prices and general cost inflation	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. This will be achieved through the established mechanisms for financial planning and reporting: • Finance and Performance Board • Corporate Cabinet and CMT workshops • Monthly budget monitoring reports to service managers	Ongoing	Chief Finance Officer / SLT / CMT	H	The final position on the General Fund in 2018/19 was £395k surplus. The MTPF has recently been updated and for 2019/20, the original deficit of £202k is now forecast as a £75k surplus. ICT savings of £227k are expected to be achieved. For 20/21, the forecast deficit has reduced from £803k to £242k. Deficits rise to just below £1m from 21/22 assuming further ICT savings are achieved. An action plan to balance future years deficits will be presented to Cabinet & Council in February 2020.

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
	• Achieving income targets for rents, fees, charges and interest • Delivering required budget savings • Outcome of Brexit • Introduction of Universal Credit The Council is forecast to balance the General Fund for 2018/19 with a £161K surplus. The MTFP (5yr) from 2019/20 shows a £202k deficit rising to £1.3m by 2023/24. There is a requirement for £1m in IT transformation savings by 2023/24 otherwise the deficit will be £2.3m. The HRA has projected to have a £21m balance at the end of 2018/19. Then the MTFP shows a closing balance of circa £7m per annum for the next 3 years.	• Quarterly budget monitoring reports to the Council, Cabinet and Scrutiny Forum • Quarterly Assistant Director meetings with finance on budgets • CMT delivering savings and income growth • Regular dialogue with the trade unions Further savings and income generation plans are ongoing.				The HRA balance at the end of 2018/19 was £29m. The MTFP currently being drafted shows an expected HRA closing balance of £15m for 2019/20, £6m for 2020/21 and £3m in future years.

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
2	Non- Housing Property Repairs – detailed condition surveys have been undertaken for 11 major assets and have been reviewed by Kier. A second tranche of 8 Council assets is currently being reviewed. Only large assets owned by the Council are being assessed. The risk to the Council is that a large number of assets will require substantial future property repairs spend which may not be budgeted for.	As the costs become clearer decisions will be required to rationalise poor quality assets, increase contribution to the property repairs fund or to borrow for major capital repairs.	Ongoing	Executive Director	H	Detailed condition surveys have been undertaken for a number of major assets and have been reviewed by KIER. Only large assets owned by the Council have been assessed. A number of 10-year maintenance plans have already been drafted e.g. Pomegranate Theatre, Chesterfield Museum and the Winding Wheel Theatre. The 10-year maintenance plan for the Town Hall is currently being drafted. The risk to the Council is that a significant number of assets will require substantial future property repairs spend, which are likely not to be covered by existing budgets. The challenge the Council has is that previously the existing maintenance plans decided the annual revenue

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
						contributions to the property repairs fund (PRF). Each CBC property budget contributes in to the PRF e.g. Town Hall. Existing budgets can't currently afford to increase their contributions to the PRF. Additionally, large major items (lifts etc) don't form part of the current contributions as they are funded from capital, which is dependent on a sufficient amount of capital receipts being achieved. The Council's 'Asset Management Group' have agreed that the whole of the Non-Housing property repairs need to be collectively reviewed to ascertain the complete picture for future maintenance plans and repairs budget requirements.

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
						This work is being taken forward as a priority and a report will be prepared by February which will contain recommendations for consideration by stakeholders. As the costs become clearer decisions will be required to rationalise poor quality assets, increase contribution to the property repairs fund or to borrow for major capital repairs. Options for funding of the works will be required and progressed through the appropriate governance structure.

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
3	Workforce Capacity and capability – Ongoing budget challenges and service demands mean that the Council will need continue to manage workforce capacity and capability. In 2018/19 both Executive Directors and the Assistant Director of Housing have left the Council leaving a capacity issue at SLT/CMT level.	The vacancies at SLT / CMT level have been advertised. SLT and CMT will review the impact of new workloads and projects to determine priorities and direct resources. Vacancy control processes are in place, allowing the Council to review and determine whether vacancies should be filled. Individual performance, capacity and capability will continue to be closely monitored through the half yearly performance reviews and training and development plans are in place to address capability gaps. A 'people' plan, which is aligned to the workforce strategy is being developed and will be implemented in 2019/20.	Ongoing	SLT / CMT / HR	H	The Council have been successful in appointing 2 new Executive Directors and an Assistant Director Housing. An interim Assistant Director of Commercial Services is in place. Although the Council were unable to appoint a Director of Finance interim arrangements are in place. The Corporate Management Team structure is currently being reviewed and revised to accommodate current vacancies and emerging priorities. Vacancy control processes continue to be followed, ensuring that service demands can be met whilst managing budget. The 'People Plan 2019 – 2023' has been developed and adopted by Council. Our strategic priorities for people 2019-2023 are to Develop great leaders,

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
						Manage change well, Develop capacity and skills, Support employee wellbeing, Recognition and reward.

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
4	ICT - A comprehensive ICT Improvement Plan has been approved and is now in its implementation stage. Until completion there is still the risk that the Council's IT systems are not fully fit for purpose or that the savings identified will not be achieved	The implementation of the approved IT Improvement Plan will be closely monitored and reported upon.	Ongoing	Assistant Director – Customers, Commissioning and Change	M	The ICT Improvement Plan continues to achieve targeted objectives. The 1st phase of savings have been realised and resilience of core ICT systems is improving. The Council has achieved continued accreditation for PSN and Cyber Essentials Plus.

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
5	Health and Safety – A Health and Safety Recovery Plan has been developed and progress against this is being monitored on a regular basis. Until the recovery plan is fully implemented there remain risks to the Council.	Progress against the Health and Safety Recovery Plan will continue to be monitored by the Corporate Health and Safety Group and reported to the Health and Safety Committee.	Ongoing	Assistant Director – Health and Wellbeing	M	Good progress has been made on the recovery plan. This has been formally recognised by the recent internal audit assessment of Corporate Health and Safety (October 2019) that identified reasonable assurance levels for the systems and processes now in place. There are still some capacity issues that need addressing. There is a plan in place and a resource proposal is being developed to put in place an enhanced corporate health and safety service within CBC.

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
6	Procurement – There is a 3 year procurement plan in place to ensure that all of the Council's processes are robust from start to finish and that value for money is being obtained. A lot more work is still required to ensure that the Council can demonstrate that the tendering and letting of contracts is in line with EU Regulations, Financial Regulations and Standing Orders.	The Council is looking to extend its procurement contract with the NHS for at least 2019/20. Other options will be explored in 2019 if the NHS contract does not offer VFM. Contract discussions are ongoing hopefully for completion in early 2019. The Council's contract registers will be brought fully up to date in order that the Council is in a better position to understand its procurement requirements. Staff training and development will be further developed in 2019.	Ongoing	Assistant Director – Customers, Commissioning and Change / CMT	M	All contracts above £5k that have been identified with service teams are now recorded on the contract register. However, we remain in a position where some historic contracts are still being identified which require investigation, review and re procurement. This is simply because of organisational change and information and people knowledge being lost or potentially misunderstood. Further supplier analysis is ongoing combining agresso analysis and procurement team and service manager work planning which should flush out contracts not currently identified by service managers. The corporate contracts register now holds around 450 contracts which is a significant improvement.

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
						New contracts held are compliant but where gaps are identified with historic contracts these are being retrospectively addressed through revised compliant process as they become due for renewal. Liaison with service teams is identifying some supply which is not compliant which also requires addressing. High value contracts are considered compliant and have in most instances involved the CBC legal team and/or been driven by project managers working with both the legal team and procurement team. Smaller value contracts are being procured in accordance with the councils Financial Regulations by teams or individual service managers where they engage and use resources such as Aspire.

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
						Information is available to all managers on Aspire, mandatory training is being finalised. The training should ensure more consistent performance and robust compliance. The procurement unit are programming meets with service managers to agree how completion of any non compliant matters are to be prioritised with the initial assumption this will be done on a “highest value” basis. A protocol for this was agreed as part of contract register management some time ago but has not yet been fully implemented due to the procurement unit recruitment and transfer to the wholly owned subsidiary arrangements. Full roll out is now being scheduled. The Council is finalising the contract extension with the

	Governance Issue	Action Proposed				Progress at end December 2019
		Description	By Date	Officer	Priority	
						NHS from October 2019 for 18 months to allow for retendering of the procurement service.

For publication

CIPFA Fraud and Corruption Tracker Survey 2019

Meeting:	Standards and Audit Committee
Date:	5th February 2020
Cabinet portfolio:	Governance
Report by:	Internal Audit Consortium Manager

For publication

1.0 **Purpose of report**

1.1 To present, for members' information the results of CIPFA'S Fraud and Corruption Tracker Survey 2019 (CFaCT) that provides a picture of fraudulent activity in local government. (Appendix A)

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 The CIPFA Counter Fraud Centre was launched in July 2014 following the closure of the National Fraud Authority and the Audit Commission. The annual CFaCT survey aims to provide a national picture of fraud, bribery and corruption in local government.

3.2 The key findings of the 2019 CIPFA Fraud and Corruption Tracker were:-

- An estimated £253 million of fraud has been detected or prevented across local authorities in 2018/19. This has dropped from £302 million in 2017/18.
- Council Tax Fraud represents 12.1% of the estimated value of fraud detected / prevented (78% in terms of volume) with an estimated value of £30.6m.
- The area that has grown the most in the last year is council tax single person discount with an estimated increase of £3.6m since 2017/18.
- The average value per fraud is around £3,600 per fraud case.
- Procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas.
- The four main areas of fraud (by volume) are – council tax, disabled parking, housing and business rates.
- The estimated value and volume of insurance fraud cases in the UK more than doubled in 2018/19 compared to the previous year.

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

CBC Fraud Prevention Measures

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

- There is an established approach of a zero tolerance policy towards fraud which is set out in the Council's Anti – Fraud and Bribery and Corruption Policy (including Money Laundering Policy) that was last approved by this Committee on the 26th September 2018.
- There is an allowance for special investigations in the internal audit plan.
- The Internal audit plan covers the whole of the organisation.
- The National Fraud Initiative is participated in and the results (number of frauds and errors identified) are subject to an internal audit report to the Standards and Audit Committee.
- Potential Council Tax Support frauds are investigated by council tax staff (Benefit fraud is now dealt with by the DWP)
- Council tax have a rolling program of discount exemption checks
- Data matching processes with the DWP and HMRC
- The Council has a Confidential Reporting Code (Whistleblowing Policy)
- Checks on benefit cases that are likely to have had changes to their income etc.
- The Council has a fraud risk register which is considered by the Risk Management Group on an annual basis.

- Recruitment procedures ensure that checks are undertaken to prevent the council employing people working under false identities etc.
- The IT systems are Public Sector Network (PSN) compliant – awaiting results of Cyber Essentials
- Separation of duties in place
- There is now a fraud module on Aspire Learning that can be completed by all staff.

4 Alternative options and reasons for rejection

4.1 The report is for information.

5 Recommendations

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

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

6 Reasons for recommendations

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

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

Decision information

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

Document information

Report author	**Contact number/email**
Jenny Williams – Internal Audit Consortium Manager	**01246 345468** **Jenny.williams@chesterfield.gov.uk**
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendix A	CIPFA's Fraud and Corruption Tracker CFaCT Survey Summary

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CIPFA The Chartered Institute of Public Finance & Accountancy

fraud and corruption tracker

Summary Report 2019

CIPFA COUNTER FRAUD CENTRE

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– Disabled parking (Blue Badge)

– Housing

– Business rates

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– Adult social care

– Insurance

– Procurement

– No recourse to public funds/welfare assistance

– Payroll, recruitment, expenses and pension

– Economic and voluntary sector support and debt

– Mandate fraud and manipulation of data

16 Serious and organised crime

17 Sanctions

17 Cyber fraud

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18 Counter fraud structure

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Foreword

Rob Whiteman
Chief Executive, CIPFA

As stewards of public money, it's the responsibility of each and every public sector organisation to take an active role in the fight against corruption, bribery and fraud. The impact of financial crime on the public sector is enormous. The diversion of funding from vital public services undermines public trust, financial sustainability, organisational efficiency and makes the vulnerable people in our communities that much worse off.

The CIPFA Fraud and Corruption Tracker (CFaCT) aims to provide a current national picture of public sector fraud and corruption for local authorities and to help identify counter fraud actions that must be taken. The report's findings provide valuable insights designed to help counter fraud practitioners in local government better understand national trends and emerging risks.

This publication is part of CIPFA's commitment to support the public sector and promote the principles of strong public financial management and good governance. Not only do our findings shed valuable light on the fraudulent activities happening in public organisations across our country, but they also showcase the important role that counter fraud measures play in the larger fight against fraud and corruption.

The findings from the 2019 CFaCT survey should not be understated. Understanding the emerging risks that similar sectors face can help organisations in the broader public sector increase their individual awareness, collaborate more effectively and take tailored action to prevent illegal activity from growing in the public sphere.

By working together, all agencies involved in protecting public resources can improve clarity and efficiency in tackling fraud. Ultimately the improved outcomes that result will benefit all communities.

The survey was supported by:

Fighting Fraud & Corruption LOCALLY

Local Government Association

The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC) was launched in 2014. Building on CIPFA's 130-year history of championing excellence in public finance management, we offer a range of products and services to help organisations detect, prevent and recover fraud losses. We support the national counter fraud and anti-corruption strategy for local government, Fighting Fraud and Corruption Locally and were named in the UK Government's 2014 Anti-Corruption Plan and in the 2017–22 Anti-Corruption Strategy as having a key role to play in combating corruption, both within the UK and abroad. Through the annual CFaCT survey, we lead on measuring and monitoring fraud, bribery and corruption activity across local government.

CIPFA **COUNTER FRAUD** CENTRE

Acknowledgements

CIPFA would like to thank all the organisations that completed the survey along with those that helped by supporting, contributing insights and best practices, including:

- Local Government Association
- Home Office
- The Fighting Fraud and Corruption Locally board

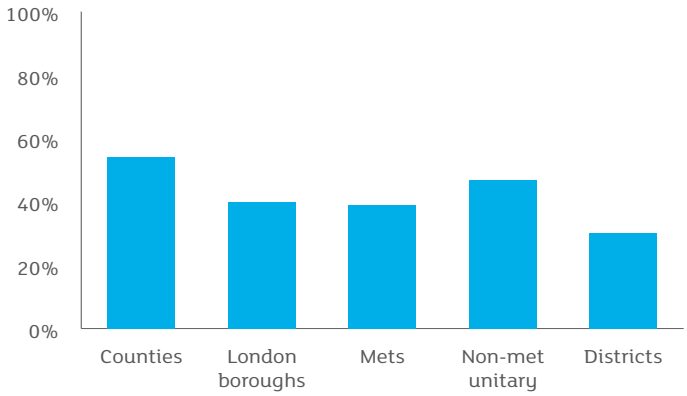
Introduction

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 2017, which provides the latest set of government sanctioned estimates, fraud costs the public sector at least £40.3bn annually, £7.8bn of which is specifically in local government.

Fraud is a widespread cause of concern in the public sector and remains a constant financial threat to local authorities. This is an ongoing issue in the sector and partners such as the Local Government Association (LGA), the National Audit Office and the Home Office actively work towards new ways of finding solutions to the challenges unique to government.

CIPFA conducted its fifth annual CFaCT survey in May 2019, with the aim of creating a national picture of the types of fraud and amount prevented or detected in local authorities. The results were received from local authorities in all UK regions, allowing CIPFA to estimate the total figures for fraud across England, Scotland, Wales and Northern Ireland.

Response rate

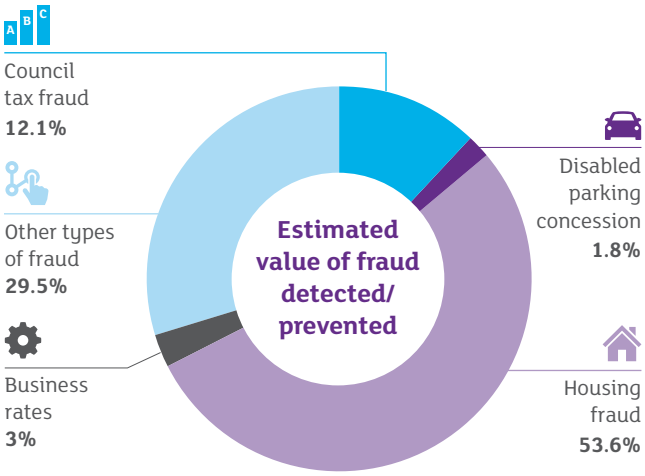


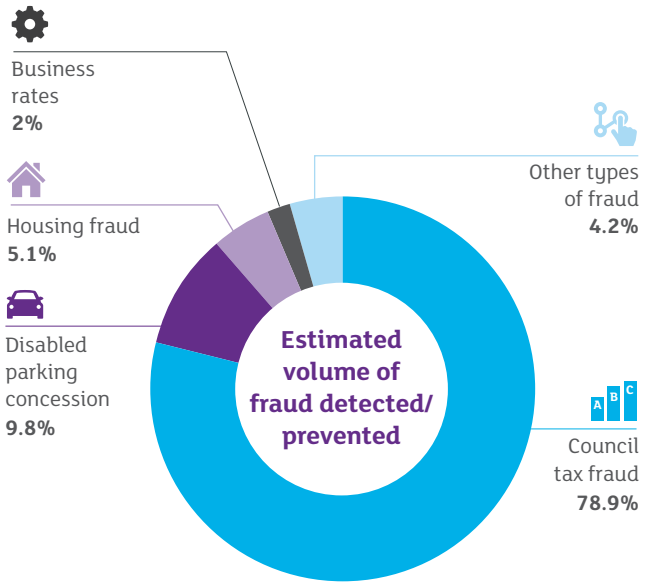
This report highlights the following:

- the types of fraud identified in the 2018/19 CFaCT survey
- the monetary cost of fraud in 2018/19
- the impact of counter fraud and prevention activities to improve the public sector budget
- the emerging risks and threats impacting the fraud and corruption landscape.

Executive summary

For local authorities in the UK, CIPFA has estimated that the total value of fraud detected or prevented in 2018/19 is approximately £253m, averaging roughly £3,600 per fraud case. In 2017/18 there was an estimated value of £302m with a similar average of £3,600 per case detecte or prevented.





The decrease in the total value can be largely attributed to the successful work by public authorities in housing, which has seen a year-on-year reduction in the total number of unlawfully sublet properties and false right to buy applications.

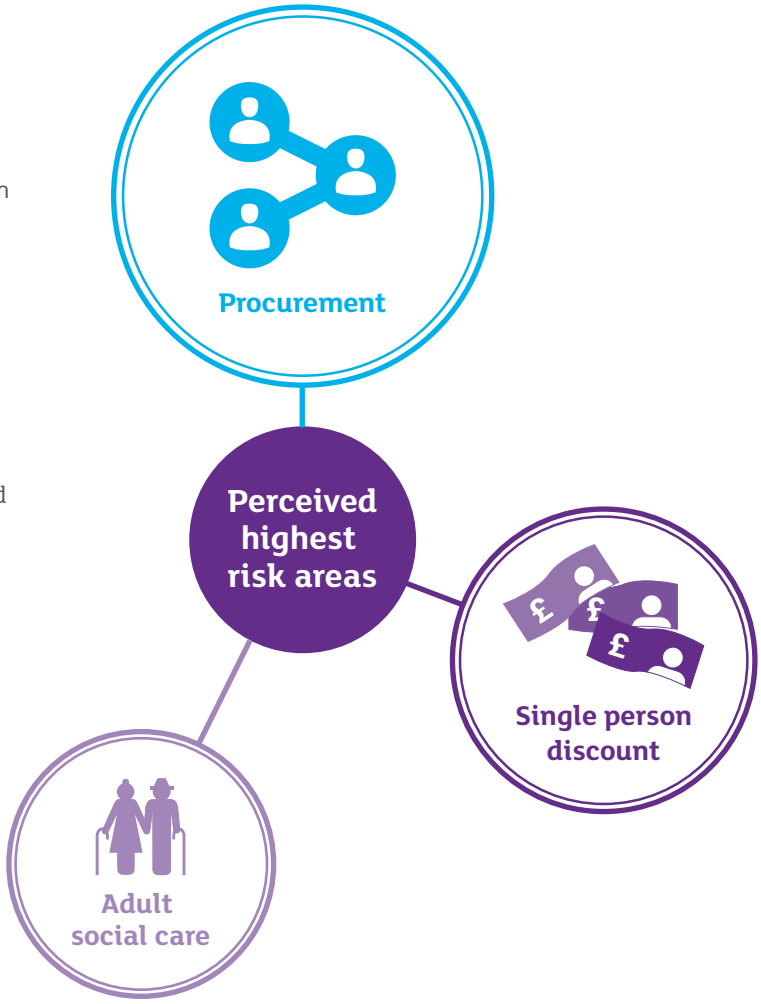
Improvements in the review of allocations and applications by many local authorities have limited the risk of new fraud cases and strengthened overall degrees of prevention. Together with low rates of tenancy turnover associated with the current social housing stock, this prevention strategy has been highly effective.

Councils reported that approximately 71,000 instances of fraud had been detected or prevented in 2018/19, which is lower than the approximate 80,000 reported by CIPFA in 2017/18. Council tax fraud represents 78% of these identified instances of fraud with an estimated value of £30.6m followed by disabled parking concession (Blue Badge scheme) and housing frauds representing 10% and 5% of the total cases of UK public sector fraud, respectively.

The area that has grown the most in the last year is council tax single person discount (SPD) with an estimated increase of £3.6m since 2017/18.

The three highest perceived fraud risk areas for 2018/19 remain unchanged from the previous iteration of this survey: procurement, council tax SPD and adult social care respectively.

Survey results show that nationally, the primary perceived issue that respondents think needs to be addressed to effectively tackle the risk of fraud and corruption is capacity – ie sufficient counter fraud resource. Better data sharing and effective fraud risk management follow as secondary and tertiary areas for improvement. Results from respondents have shown that they expect to increase the number of counter fraud specialist staff by 9% over the next year, a continuation of an upward trend for employing counter fraud specialists in councils.



In the last year, the value of fraud detected and prevented by local authorities in the UK was

£253m

Major fraud areas

For 2018/19, the CFaCT survey has shown that the four main areas of fraud (by volume) that local authorities are tackling are:

- council tax
- disabled parking (Blue Badge)
- housing
- business rates.

Council tax

Council tax has continued to be the largest area of identified fraud over the last three years and is the top fraud risk for districts and unitaries, 43% and 26%, respectively. Although the volume is significantly higher when compared to other fraud risk areas, council tax does not represent the highest cumulative value amongst all surveyed types of fraud, estimated to total £30.6m. This high volume/low value continues to be a leading trend each year.

Table 1: Estimated council tax fraud

	2016/17		2017/18		2018/19	
	Volume	Value	Volume	Value	Volume	Value
SPD	50,136	£19.5m	46,278	£15.8m	44,051	£19.4m
CTR	6,326	£4.8m	8,759	£6.1m	8,973	£7.2m
Other	674	£1.1m	2,857	£4.5m	2,831	£4.0m
Total	**57,136**	**£25.5m**	**57,894**	**£26.3m**	**55,855**	**£30.6m**

The total number of detected and prevented fraud cases for council tax fell in 2018/19 after rising in previous years. However, the average values of frauds, especially for SPD, has risen resulting in an increase in the total value.

55,855

instances of council tax fraud amounted to

£30.6m

in the last year

Disabled parking (Blue Badge)

The survey has identified misuse of the Blue Badge scheme as one of the fraud risk areas that is increasing steadily. Although the number of cases has nearly halved since last year, the national estimated average value per case has increased from £499 to £657 in 2018/19. Although this value does not include cases with a normal cancellation upon death of the individual, the increase is likely to continue with new criteria in guidance released by the Department for Transport and Ministry of Housing, Communities & Local Government (MHCLG).

This guidance states that the Blue Badge scheme now extends to individuals with less 'visible' disabilities, such as dementia or anxiety disorder – one of the biggest changes to the scheme in nearly 50 years. These extended criteria came into effect in August 2019 and coincide with the launch of a new task force to aid local authorities in the prevention and detection of Blue Badge fraud.[1]

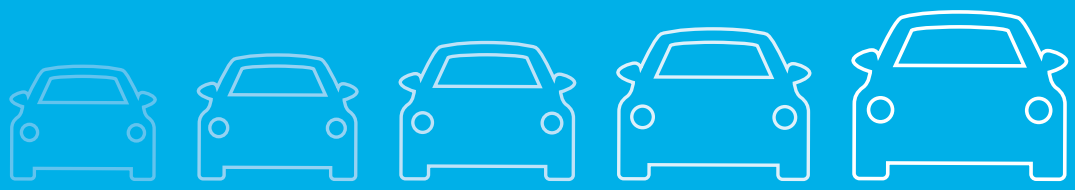
This indicates that although procurement, council tax SPD and adult social care are identified nationally as the three main fraud risk areas, Blue Badge fraud is an area of increasing risk and prominence.

Due to the varying nature of cases and local authorities' individual calculation methods, at present there is no standard means of calculating the value of Blue Badge fraud. It is challenging to directly compare the value of fraud cases detected/prevented across all UK authorities.

For example, Greater London authorities place a higher value against the fraud loss in comparison to other local authorities, with an average value of £3,340 per case compared to counties who had an average of £260 per fraud case; this is partially due parking fees being much higher in Greater London.

> Fraud from the misuse of the Blue Badge scheme is a fraud area that is steadily increasing.

The average case of Blue Badge fraud has increased from **£499** to **£657**



1 www.gov.uk/government/news/review-of-blue-badge-fraud-as-scheme-is-extended-to-those-with-hidden-disabilities

Housing and tenancy fraud

In relation to housing fraud, councils record the income lost using different valuations that can range from a notional cost of replacing a property to the average cost for keeping a family in bed and breakfast accommodation for a year. These different approaches make it challenging to formulate clear comparisons. On a national scale, the value of fraud detected or prevented is considered in the two following ways:

- if the cases were pertaining to new-build accommodation
- if the cases were pertaining to temporary accommodation.

Table 2: Estimated housing fraud

Type of fraud	2016/17	2017/18	2018/19
	Volume	Volume	Volume
Right to buy	1,284	1,518	652
Illegal sublet	1,829	1,051	826
Other*	2,825	2,164	2,154
Total	**5,938**	**4,733**	**3,632**

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

3,632

instances of housing fraud occurred in the UK last year

In cases regarding new-build accommodations an average of £150k per fraud case is applied, compared to £18k for cases regarding temporary accommodations. This can be further explored by examining the comparison by tier (see Table 2).

There has been a steady downward trend in the number of housing and tenancy related frauds detected/prevented, decreasing by roughly 20% year-on-year. This trend likely indicates successful efforts by local authorities to tackle housing fraud and remove illegally sublet properties from the system.

Business rates

Business rate fraud represents 2% of the total estimated number of fraud cases detected or prevented in 2018/19. This represents a marginal increase from the previous year's figure of 1.7% and is reflected in the fact that councils reported it as the fifth highest fraud risk area on a national scale and third highest specific to districts.

Examples of business rates fraud include fraudulent applications for exemptions, tax relief and the failure to list properties as being a business address. It often takes a visit from someone in the fraud team to discover the truth.

Even with the increased percentage overall, the estimated loss decreased to £8m from £10m the previous year.

Other types of fraud

This section of the report examines survey responses related to other notable types of fraud that did not emerge as major types of fraud within the national picture. This section includes the following fraud types, among others[2]:

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

Adult social care

Table 3: Estimated adult social care fraud

Type of fraud	2016/17		2017/18		2018/19	
	Volume	Value	Volume	Value	Volume	Value
Personal budget	264	£2.7m	334	£3.2m	234	£9.6m*
Other	182	£2.8m	403	£3.5m	246	£4.1m
Total	**446**	**£5.5m**	**737**	**£6.7m**	**480**	**£13.7m***
Average value per fraud		**£12k**		**£9k**		**£29k***

*Please note that this figure is inflated by a small number of authorities and though it is not comparable, it shows the scope of fraud possible in this area.

In 2018/19, there was a reversal of the trend of a steady decline in the average value per fraud of adult social care. In 2018/19 the average value of personal budget fraud increased, primarily as a result of a small number of very high value frauds identified in two councils. Excluding these cases, the decline in the value and volume of personal budget frauds continued. Other fraud also showed a decline in numbers of cases identified but the average value increased.

2 An explanation of each fraud can be found in the Glossary on page 23.

Insurance fraud

This year's survey reports an estimated number of 318 insurance fraud cases, valued cumulatively at £12.6m. In comparison to the previous year, both the estimated volume and value of insurance fraud cases in the UK more than doubled.

Respondents who identified insurance fraud also reported two confirmed insider fraud cases with a combined value of £43k.

Local authority insurance fraud cases included in this survey are a mixture of both one-off, high-value employer liability claims (such as injury at work) and frequent, low-value public liability claims (such as 'slips and trips' or property damage).

Through pro-active risk management, many risks faced by councils are being effectively identified, treated and managed. In turn, these actions have led to more effective controls and better review and management of red flags against high risk claims, contributing to higher levels of fraud prevention or detection.

Procurement fraud

For the third year in a row, procurement fraud is seen as the highest fraud risk area. Services are constantly being procured by councils and fraud can take place at any point in the supply chain, making it difficult to both detect and measure especially once a contract has been awarded. Councils also undertake large value infrastructure and regeneration projects, usually subjected to outsourcing. As councils are responsible for the funding of these large projects, when procurement fraud does occur the sums can be significant.

This year, there was an estimated number of

125

prevented or **detected** procurement frauds.

This year, there was an estimated number of 125 prevented or detected procurement frauds with 12% of cases reported being insider fraud and 5% classified as serious and organised crime. This is a continued decline from 142 estimated fraudulent cases with a value of £5.2m in 2017/18 and 197 cases with a value of £6.2m in 2016/17.

Table 4: Estimated procurement fraud

2016/17		2017/18		2018/19	
Volume	Value	Volume	Value	Volume	Value
197	£6.2m	142	£5.2m	125	£20.3m*

*Please note this figure is attributable to mainly one organisation and though it is not comparable to other respondents, it shows the scope for fraud in this area.

Over the past 12 months MHCLG has been leading a review into the risks of fraud and corruption in local government procurement as committed to in the UK Government's Anti-Corruption Strategy 2017-2022.

Welfare assistance and no recourse to public funds

In 2018/19, the estimated number of fraud cases related to welfare assistance dropped significantly to 24. In 2017/18 and 2016/17 there were an estimated 109 and 74 cases, respectively. The scope for the volume of cases authorities can receive in this area was demonstrated last year where the average number of cases per authority was over three times the level identified in 2018/19.

2018/19 saw the number of no recourse to public funding cases fall to an estimated 148, down from an estimated 334 cases in the previous year. This decline can possibly be attributed to fewer respondents detecting/preventing fraudulent activity in this area.

Economic and voluntary sector (grant fraud) and debt

The number of grant fraud cases reported by local authorities responding to the survey has reduced to six cases with an average value per fraud loss of approximately £4,000. In the 2016/17 survey, there were 17 actual cases of grant fraud reported, which increased in 2017/18 to 24 cases with an average estimated loss of £14,000 per case.

The number of debt cases reported has increased to 53, and is valued at over £495,000 this year, compared to 38 reported cases in 2017/18 valued at over £150,000. This year, both the number and value of debt fraud cases increased, despite a decline in the survey's response rate. This might indicate that debt fraud likely has a higher scope for fraudulent activity than previously expected.

> The number of grant fund fraud cases reported by local authorities has gone down to six.

Payroll, expenses, recruitment and pension

The total value of the fraud loss for these four areas in 2018/19 was an estimated £9.42m. This figure was inflated by one incident of payroll fraud that was prevented by an authority and though it is not comparable on a national basis, it reflects the scope of fraud for this area.

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

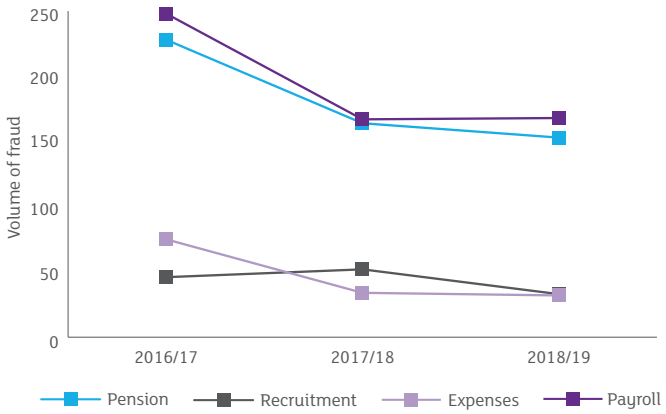
Payroll has had the highest volume and value of fraud out of these four areas (payroll, expenses, recruitment and pension) for every year since 2016/17. Recruitment fraud has the second highest with an estimated average per case of £11,381.

Table 5: Estimated payroll, expenses, recruitment and pension fraud

	2016/17		2017/18		2018/19	
Type	**Volume**	**Value**	**Volume**	**Value**	**Volume**	**Value**
Payroll	248	£1.0m	167	£1.01m	168	£8.77m*
Expenses	75	£0.1m	34	£0.03m	32	£0.04m
Recruit-ment	46	£0.2m	52	£0.49m	33	£0.38m
Pension	228	£0.8m	164	£0.57m	153	£0.23m
Total	**597**	**£2.1m**	**417**	**£2.1m**	**386**	**£9.42m***

*Please note this figure is attributable to mainly one organisation and though it is not comparable to other respondents, it shows the scope for fraud in this area.

Changes in fraud volume



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

CIPFA estimates that across the UK in 2018/19 there were 34 cases of manipulation of data fraud, which is an increase from the estimated cases in 2017/18 following a dip compared to the year before that.

There were 322 estimated cases of mandate fraud in 2018/19 compared to 257 estimated cases detected or prevented in 2017/18.

Serious and organised crime

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

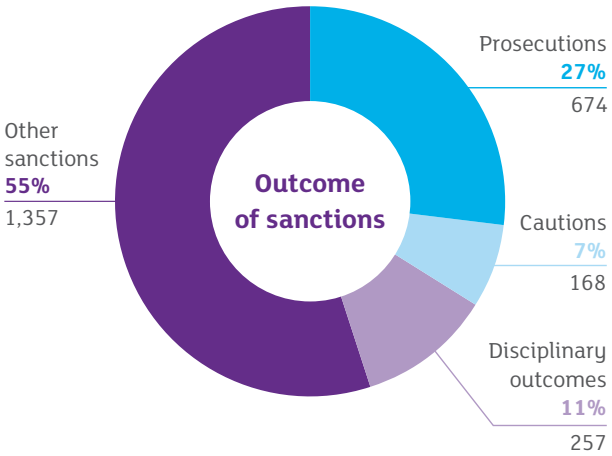
The 2018/19 survey identified 24 cases of serious and organised crime, a decrease from the 56 in 2017/18 which had doubled from the year before that. All of this year's cases come from metropolitan, districts, London boroughs and counties. This may indicate that larger and more complex authorities bear a greater risk of being targeted by serious and organised crime. The responses show that councils share a significant amount of data both internally and externally, with 72% sharing data with the Cabinet Office/ National Fraud Initiative, 52% sharing data with the police and 49% sharing data with their peers (other councils).

Of the organisations that responded, 35% identified serious and organised crime within their organisation's risk register.

Sanctions

The following shows some of the key findings from sanctions that are being used in CFaCT 2018/19:

- 674 prosecutions were completed in 2018/19. Of these 17 involved insider fraud and 14 of those insider fraud cases were found guilty.
- The number of cautions increased from 9% in 2016/17 to 13% in 2017/18 but reduced to 7% in 2018/19.
- The percentage of other sanctions dropped from 53% in 2016/17 to 46% in 2017/18 but increased to 55% in 2018/19.



Cyber fraud

Results from the CFaCT survey show that 74% of respondents last underwent a cyber/e-fraud risk assessment during or after 2018/19 and 78% state that the IT team/senior information risk owner is responsible for the management of cyber risk in their organisation.

Twenty seven percent of respondents stated that their organisation had been a victim of hacking/distributed denial of service attacks in the last month.

In response to the threat of cybercrime against local government, the LGA has set up a Cyber Security Programme and a stakeholder group, working to address the issues.

The LGA's Cyber Security Programme received three years of funding from the National Cyber Security Programme (NCSP) in 2018 to help councils remain safe from cyber attacks and put appropriate arrangements in place to deal effectively with a cyber incident should it occur, ie both prevention and response.

Whistleblowing

This year, 67% of respondents said they annually reviewed their whistleblowing arrangements in line with BS PAS 1998:2008 Whistleblowing Arrangements Code of Practice. Councils also named other codes of practices with which they are aligning.

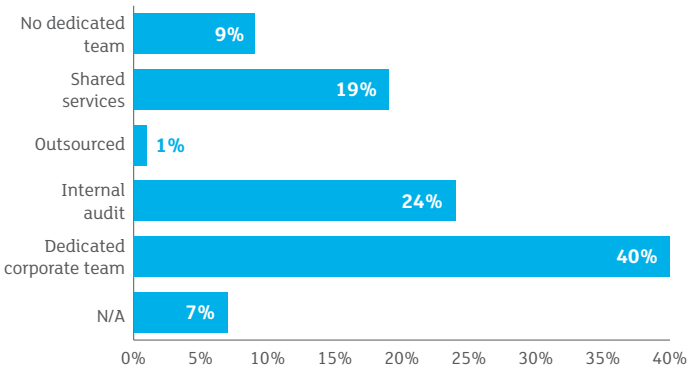
Of those questioned, 86% confirmed that staff and the public had access to a helpdesk and 70% said that the helpline conformed to the BS PAS1998:2008.

Respondents reported a total of 755 whistleblowing cases logged, made in line with BS PAS 1998:2008, representing disclosures in all areas – not just with regard to suspected fraudulent behaviour. This is an average of six cases logged per authority, double last year's average of three per authority. Responses showed that the majority of cases were logged by London councils and metropolitan districts.

Counter fraud structure

Fraud teams across local government continue to detect and prevent a significant amount of fraud, although counter fraud resource is the main perceived issue that need to be addressed to tackle fraud. Councils are responding to this perceived need and expect the number of counter fraud specialist staff to grow by around 9% in the next year, followed by a small increase in 2021.

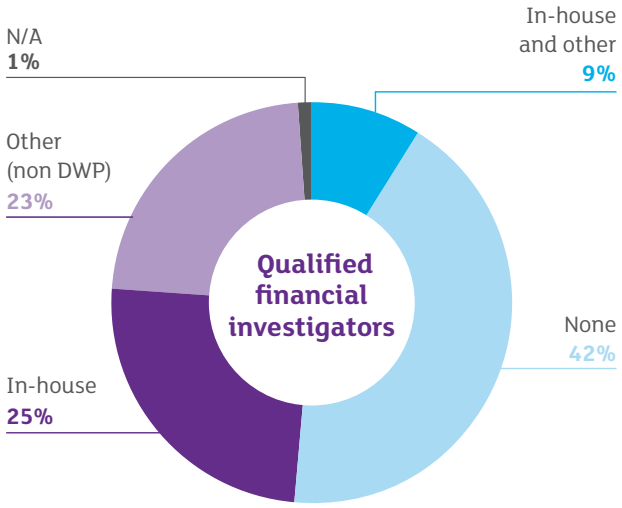
Counter fraud structure breakdown



Adopting a shared services structure is increasingly popular and this year it was reported that 19% of respondents have such a structure compared to 14% last year. Some smaller authorities have likely adopted this approach for its associated resiliency and cost efficiency.

There has been a decrease in authorities that have a dedicated counter fraud team – from 51% in 2017/18 to 40% in 2018/19. However, it is worth noting there may be a potential bias in this figure as those who have a dedicated counter fraud team are more likely and able to return data for the CFaCT survey.

The number of available in-house qualified financial investigators has increased from 31% in 2017/18 to 44% in 2018/19. In addition, the percentage of authorities that have a non-Department of Work and Pensions (DWP) qualified financial investigator increased from 23% in 2017/18 to 25% in 2018/19. However, the number of authorities that don't have a qualified financial investigator available to their organisation has increased from 41% last year to 43%.



Joint working/data sharing

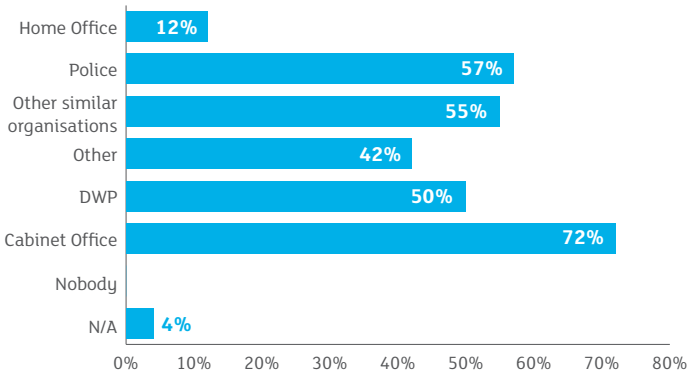
Eighty-nine percent of survey respondents have stated that they share data internally, mainly with housing, council tax and revenue/benefits departments.

Ninety-six percent of local authorities share data externally which is an increase of 2% from 2017/18. This data is mainly shared with Cabinet Office/National Fraud Initiative (72%), police (57%), other authorities/similar organisations (55%) and the DWP (50%).

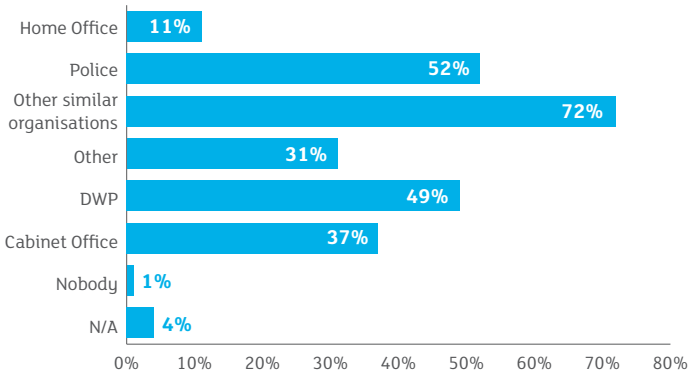
The sort of data that is shared relates to persons of interest, areas of interest and emerging frauds. Some authorities also highlighted that the kind of data they share is for data-matching purposes.

Of the CFaCT respondents, 72% say they work jointly with other similar organisations/peers, 52% work with the police and 49% with the DWP. Further breakdown is shown in the following chart.

Share/exchange data with:

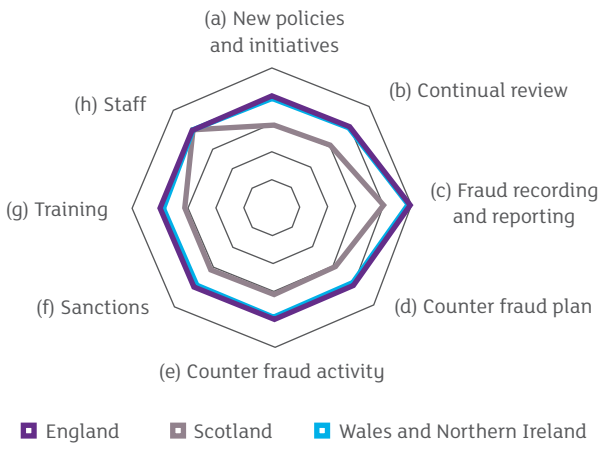


Work jointly with:



Fighting Fraud and Corruption Locally

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



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

To measure the effectiveness of its 2016-2019 strategy, the FFCL board includes questions in the CFaCT survey. The questions ask respondents whether they agree or disagree that their organisation is carrying out certain actions, based on FFCL recommendations. The diagram to the left illustrates the results; lines closest to the outside edge indicate strong agreement while those towards the centre indicate disagreement.

> **The FFCL strategy is the definitive guide for local authority leaders. Everyone can benefit from good practice.**

Recommendations

CIPFA recommends

- **The cumulative value of fraud prevented/ detected by local authorities has declined year-on-year.** Public sector organisations must remain vigilant and determined in identifying and preventing fraud throughout their procurement processes.
- **This year's findings show that shared services counter fraud structures are becoming more popular amongst authorities.** Effective practices for detecting and preventing fraud should be shared and adopted across the sector. Fraud prevention should be embedded in 'business as usual' across an entire organisation to improve the effectiveness of preventative measures.
- **Although the number of qualified investigators has increased over the past year, the survey shows a decline in the number of authorities with a dedicated counter fraud team.** All staff, across all public sector work functions, should receive fraud awareness training in order to better identify fraud risks, fraud attempts and implement effective controls.
- **According to respondents, a lack of adequate counter fraud resources is the main perceived issue that needs to be addressed to effectively tackle fraud.** All organisations should ensure that they have strong counter fraud leadership at the heart of senior decision-making teams. Fraud teams and practitioners should be supported in presenting business cases to resource their work effectively.
- **The survey shows that the overwhelming majority of authorities share data externally, however vast discrepancies exist among the organisations that receive that shared data.** Public sector organisations should continue to maximise opportunities to share data and to explore innovative use of data, including sharing with law enforcement bodies and third party experts.
- **In the past year, 89% of local authorities shared fraud-related data internally.** Where counter fraud functions are decentralised within an authority, counter fraud leads should ensure effective inter-departmental collaboration (ie between housing, IT (cyber security), revenues, etc). For some authorities, necessary collaboration could be achieved through the formation of a counter-fraud working group.
- **In-line with the FFCL Strategy 2016-2019**, the importance of the fraud team's work should be built into both internal and external communication plans. Publicly highlighting a zero tolerance approach can work to improve the reputation and budget position of authorities.

> "The importance of the fraud team's work should be built into both internal and external communications plans."

Appendix 1: Fraud types and estimated value/volume

The table below shows the types of frauds reported in the survey and the estimated volume and value during 2018/19.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	55,855	78.9%	£30.6m	12.1%	£548
Disabled parking concession	6,951	9.8%	£4.6m	1.1%	£657
Housing	3,632	5.1%	£135.6m	53.6%	£37,332
Business rates	1,404	2.0%	£7.7m	3.0%	£5,455
Other fraud	616	0.9%	£6.0m	2.4%	£9,779
Adult social care	480	0.7%	£13.7m*	5.4%*	£28,534*
Schools frauds (excl. transport)	391	0.6%	£0.7m	0.3%	£1,893
Mandate fraud	322	0.5%	£4.7m	1.8%	£14,506
Insurance claims	318	0.5%	£12.6m	5.0%	£39,636
Payroll	168	0.2%	£8.8m*	3.5%*	£52,270*
Pensions	153	0.2%	£0.2m	0.1%	£1,498
No recourse to public funds	148	0.2%	£1.4m	0.6%	£9,483
Procurement	125	0.2%	£20.3m*	8.0%*	£161,565*
Debt	77	0.1%	£0.6m	0.2%	£7,278
Manipulation of data	34	0.1%	na	na	na
Recruitment	33	0.1%	£0.4m	0.2%	£11,381
Expenses	32	0.1%	£0.0m	0.0%	£1,124
School transport	31	0.0%	£4.8m	1.9%	£154,601
Welfare Assistance	24	0.0%	£0.0m	0.0%	£1,824
Children social care	19	0.0%	£0.4m	0.2%	£22,076
Economic and voluntary sector support	14	0.0%	£0.1m	0.0%	£4,005
Investments	2	0.0%	na*	na*	na*

*The figures for investments are not available as only one response was received and thus the amount is not representative of the national average. The other figures in this table are affected by a small number of councils that had high value frauds not indicative of the national average.

Appendix 2: Methodology

This year's results are based on responses from 142 local authorities. An estimated total volume and value of fraud has been calculated for all local authorities in England, Wales, Scotland and Northern Ireland. Missing values are calculated according to the size of the authority and for each type of fraud an appropriate universal measure of size has been selected, such as local authority housing stock for housing frauds.

From the responses, the number of cases per each unit of measurement is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value. As an illustration, if the number of housing frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000 then the total estimated value of fraud for that authority is £1m.

Appendix 3: Glossary

Definitions below are taken from CIPFA's CFaCT survey, the Annual Fraud Indicator and other government sources.

Adult social care fraud:

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

Investigations cover cases where:

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

Blue Badge:

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

At present, a badge issued to a deceased person is classified as fraudulent, even if it is not being used for fraudulent purposes.

Business rates fraud:

Business rates fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to separate evasion and avoidance. Business rate fraud may include the fraudulent applications for exemptions and reliefs and unlisted properties, and fraud staff may be used to visit properties in question.

Cautions:

Cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to do so in that instance.

Council tax fraud:

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

Council tax fraud is split into three sections:

- Council tax single person discount – where the council tax payer claims for occupiers who don't exist they are the only occupant eligible to pay.
- Council tax reduction support – where the council tax payer fails to declare their income correctly.
- Other types of council tax fraud – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

Debt fraud:

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

Disciplinary outcomes:

Disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team, disciplinary action is undertaken, or where a subject resigns during the disciplinary process.

Economic and voluntary sector (grant fraud):

This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation.

Housing fraud:

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

Insurance fraud:

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

Mandate fraud:

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

Manipulation of data fraud:

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

No recourse to public funds:

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

Organised crime:

The widely used definition of organised crime is one planned, co-ordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain.

Payroll fraud:

Payroll fraud covers a wide range of areas such as ghost employees on the payroll, diversion of payments into fraudulent accounts, employees set up to receive higher salaries than they are entitled to by either grade or hours worked and false overtime claims.

Procurement fraud:

The procurement of goods and services often accounts for a significant proportion of an organisation's expenditure and is open to a wide range of potential fraud risks. This is because there are usually multiple individuals involved in a process who often do not work closely together: ie the person who wants something purchased does not always work directly with the people who initiate orders and with those responsible for paying.

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

Recruitment fraud:

Recruitment fraud includes applicants providing false CVs, job histories, qualifications, references, immigration status (ie the right to work in the UK) or the use of a false identity to hide criminal convictions or immigration status.

Right to buy:

Right to buy is the scheme that allows tenants that have lived in their properties for a qualifying period the right to purchase the property at a discount. Fraud is committed when an applicant has made false representations regarding the qualifying criteria, such as being resident in the property they are purchasing for a 12 month continuous period prior to application.

Welfare assistance:

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

Whistleblowing:

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

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2019/11

For publication

National Fraud Initiative

Meeting:	Standards and Audit Committee
Date:	5th February 2020
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 the results of the 2018/19 National Fraud Initiative (NFI) for Chesterfield Borough Council.

2.0 Recommendation

2.1 That the report be noted.

3.0 Report details

3.1 The Cabinet Office are responsible for NFI. Local Authorities are required to supply various data sets which the Cabinet Office process and match with other local authorities and participating organisations to try to highlight potential cases for further investigation. It should be noted that the existence of a match does not necessarily indicate that any form of fraud has taken place and each match needs to be investigated further.

3.2 The main reports generated relate to housing benefit claimants, payroll, creditors, housing tenant data, right to buy and council tax reduction scheme. Council Tax (single person discount) matches are subject to a separate annual data matching exercise, with these results being reviewed by Arvato Revenues staff.

3.3 For the 2018/19 matching exercise, data was uploaded in October 2018 to the NFI secure web application and the reports were released to local authorities to commence their reviews from late January 2019. The results of the reviews are recorded on the secure web site together with the amount of any errors or fraud identified.

3.4 Records were submitted to NFI from the following service areas:

- Housing Right to Buy
- Housing Tenancies
- Housing waiting list
- Council Tax Reduction Scheme
- Alcohol Licences
- Market Traders
- Taxi Drivers
- Payroll
- Resident Parking Permits
- Trade Creditor Payment History
- Trade Creditor Standing Data

Data Match Reports	Total Data Matches	Data Matches Processed	Total Fraud	Total Errors
104	2,837	1,357	0	25 (£19,173.10)

3.5 Overall 1,357 matches have been reviewed out of 2,837 total data matches. No fraud was identified and 25 errors were identified 6 of which resulted in financial error totalling £19,173.10. The errors identified were from the following areas (see Appendix 1) :-

- Council Tax Reduction Scheme (3) £ 4,984.28
- Duplicate Creditor Payments (3) £14,188.82

3.6 In terms of the Council Tax Reduction Scheme errors the claims have been cancelled and an overpayment created.

3.7 All of the duplicate creditor payments have been refunded.

3.8 Risk Management Issues – There is a risk that there could be fraud or errors within the matches that have not been investigated, however, no fraud has been identified to date and the number of errors is minimal.

3.9 Financial - the investigation of matches has been undertaken within current staffing resources.

4 Alternative options and reasons for rejection

4.1 The report is for information.

5 Recommendation

5.1 That the report be noted.

6 Reasons for recommendation

6.1 To inform Members of the results of the 2018/19 NFI.

Decision information

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

Document information

Report author	**Contact number/email**
Jenny Williams – Internal Audit Consortium Manager	**01246 345468** **Jenny.williams@chesterfield.gov.uk**
Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
Appendices to the report	
Appendix 1	NFI 2018/2019 CBC Summary

NATIONAL FRAUD INITIATIVE 2018/2019 **30-Dec-2019**

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
2 High	Housing Benefit Claimants to Student Loans, high quality, between bodies		17	Opened	8	0	0	0	£0.00
13 High	Housing Benefit Claimants to Payroll, high quality, within bodies		4	Closed	2	0	0	0	£0.00
14 High	Housing Benefit Claimants to Payroll, high quality, between bodies		64	Closed	47	0	0	0	£0.00
14.1 High	Housing Benefit Claimants to Pensions, high quality, between bodies		177	Closed	99	0	0	0	£0.00
16.2 High	Housing Benefit Claimants to Payroll, same phone number, between bodies		1	Closed	1	0	0	0	£0.00
18 Low	Housing Benefit Claimants to Payroll, address quality, between bodies		17	Closed	16	0	0	0	£0.00
18.1 Low	Housing Benefit Claimants to Pensions, address quality, between bodies		12	Closed	12	0	0	0	£0.00
27 High	Housing Benefit Claimants to Housing Benefit Claimants, high quality, between bodies		3	Closed	3	0	0	0	£0.00
28.1 High	Housing Benefit Claimants to Housing Benefit Claimants, same phone number, within bodies		1	Closed	1	0	0	0	£0.00
30 High	Housing Benefit Claimants to Housing Tenants, high quality, within bodies		4	Closed	4	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2018/2019 **30-Dec-2019**

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
31 High	Housing Benefit Claimants to Housing Tenants, high quality, between bodies		5	Closed	5	0	0	0	£0.00
32.1 High	Housing Benefit Claimants to Housing Tenants, same phone number, within bodies		2	Not Opened	0	0	0	0	£0.00
34 High	Housing Benefit Claimants to Right to Buy, high quality, within bodies		5	Closed	5	0	0	0	£0.00
46.1 High	Housing Benefit Claimants to Market Traders, high quality, within bodies		1	Closed	1	0	0	0	£0.00
47.1 High	Housing Benefit Claimants to Taxi Drivers, high quality, within bodies		28	Closed	12	0	0	0	£0.00
48.3 Medium	Housing Benefit Claimants to Personal alcohol licences, medium quality, within bodies		1	Not Opened	0	0	0	0	£0.00
48.5 Low	Housing Benefit Claimants to Personal alcohol licences, address quality, within bodies		1	Not Opened	0	0	0	0	£0.00
49.1 High	Housing Benefit Claimants to Benefits Agency Deceased Persons, high quality, within bodies		64	Closed	64	0	0	0	£0.00
66 High	Payroll to Payroll, high quality, between bodies		19	Closed	19	0	0	0	£0.00
67.1 High	Payroll to Payroll, same phone number, within bodies		1	Closed	1	0	0	0	£0.00
67.2 High	Payroll to Payroll, same email address, within bodies		1	Closed	1	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2018/2019 **30-Dec-2019**

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
68.1 High	Payroll to Payroll, same phone number, between bodies		11	Closed	11	0	0	0	£0.00
78 Info	Payroll to Pensions, high quality, between bodies		1	Not Opened	0	0	0	0	£0.00
80 High	Payroll to Creditors, same bank account, within bodies		3	Closed	3	0	0	0	£0.00
81 Low	Payroll to Creditors, address quality, within bodies		7	Closed	7	0	0	0	£0.00
91 High	Housing Benefit Claimants to Waiting List, high quality, between bodies		21	Not Opened	0	0	0	0	£0.00
100 High	Housing Tenants to Housing Tenants, high quality, within bodies		18	Not Opened	0	0	0	0	£0.00
101 High	Housing Tenants to Housing Tenants, high quality, between bodies		3	Opened	2	1	0	0	£0.00
102 Medium	Housing Tenants to Housing Tenants, medium quality, within bodies		4	Not Opened	0	0	0	0	£0.00
102.2 High	Housing Tenants to Housing Tenants, same phone number, within bodies		48	Closed	1	0	0	0	£0.00
102.3 High	Housing Tenants to Housing Tenants, same email address, within bodies		1	Not Opened	0	0	0	0	£0.00
103 Medium	Housing Tenants to Housing Tenants, medium quality, between bodies		1	Not Opened	0	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
103.2 High	Housing Tenants to Housing Tenants, same phone number, between bodies		11	Not Opened	0	0	0	0	£0.00
103.3 High	Housing Tenants to Housing Tenants, same email address, between bodies		1	Not Opened	0	0	0	0	£0.00
111 High	Housing Tenants to Housing Benefit Claimants, high quality, between bodies		9	Closed	1	0	0	0	£0.00
113 Medium	Housing Tenants to Housing Benefit Claimants, medium quality, between bodies		1	Not Opened	0	0	0	0	£0.00
113.2 High	Housing Tenants to Housing Benefit Claimants, same phone number, between bodies		4	Not Opened	0	0	0	0	£0.00
114 High	Housing Tenants to Right to Buy, high quality, within bodies		1	Closed	1	0	0	0	£0.00
120 High	Housing Tenants to Benefits Agency Deceased Persons, high quality, within bodies		85	Closed	13	0	0	0	£0.00
131 High	Housing Tenants to Waiting List, high quality, between bodies		3	Not Opened	0	0	0	0	£0.00
148 High	Right to Buy to Housing Tenants, high quality, within bodies		1	Closed	1	0	0	0	£0.00
149 High	Right to Buy to Housing Tenants, high quality, between bodies		2	Closed	2	0	0	0	£0.00
150.1 High	Right to Buy to Housing Tenants, same phone number, within bodies		1	Closed	1	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
156 High	Right to Buy to Housing Benefit Claimants, high quality, within bodies		9	Closed	9	0	0	1	£0.00
157 High	Right to Buy to Housing Benefit Claimants, high quality, between bodies		2	Closed	2	0	0	0	£0.00
158.1 High	Right to Buy to Housing Benefit Claimants, same phone number, within bodies		1	Closed	1	0	0	0	£0.00
172.3 High	Resident Parking Permit to Benefits Agency Deceased Persons, high quality, within bodies		6	Opened	6	0	0	3	£0.00
230 High	Waiting List to Housing Tenants, high quality, within bodies		17	Not Opened	0	0	0	0	£0.00
231 High	Waiting List to Housing Tenants, high quality, between bodies		13	Closed	1	0	0	0	£0.00
233 Medium	Waiting List to Housing Tenants, medium quality, between bodies		1	Not Opened	0	0	0	0	£0.00
240 High	Waiting List to Housing Benefit Claimants, high quality, within bodies		24	Closed	1	0	0	0	£0.00
241 High	Waiting List to Housing Benefit Claimants, high quality, between bodies		8	Not Opened	0	0	0	0	£0.00
242 Medium	Waiting List to Housing Benefit Claimants, medium quality, within bodies		1	Not Opened	0	0	0	0	£0.00
243 Medium	Waiting List to Housing Benefit Claimants, medium quality, between bodies		1	Not Opened	0	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
257 High	Waiting List to Waiting List, high quality, between bodies		23	Not Opened	0	0	0	0	£0.00
259 Medium	Waiting List to Waiting List, medium quality, between bodies		1	Not Opened	0	0	0	0	£0.00
261 High	Waiting List to Benefits Agency Deceased Persons, high quality, within bodies		44	Not Opened	0	0	0	0	£0.00
435 High	Council Tax Reduction Scheme to Payroll, high quality, within bodies		4	Closed	4	0	0	0	£0.00
436 High	Council Tax Reduction Scheme to Payroll, high quality, between bodies		57	Closed	44	0	0	0	£0.00
436.1 High	Council Tax Reduction Scheme to Pensions, high quality, between bodies		382	Closed	64	0	0	1	£3.62
440 Low	Council Tax Reduction Scheme to Payroll, address quality, between bodies		24	Opened	23	0	0	0	£0.00
440.1 Low	Council Tax Reduction Scheme to Pensions, address quality, between bodies		35	Not Opened	0	0	0	0	£0.00
446 High	Council Tax Reduction Scheme to Council Tax Reduction Scheme, high quality, between bodies		10	Closed	8	0	0	1	£4560.00
449 High	Council Tax Reduction Scheme to Housing Tenants, high quality, within bodies		19	Closed	9	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
450 High	Council Tax Reduction Scheme to Housing Tenants, high quality, between bodies		6	Opened	4	1	0	0	£0.00
451 Medium	Council Tax Reduction Scheme to Housing Tenants, medium quality, within bodies		2	Closed	2	0	0	0	£0.00
452 Medium	Council Tax Reduction Scheme to Housing Tenants, medium quality, between bodies		2	Not Opened	0	0	0	0	£0.00
453 High	Council Tax Reduction Scheme to Right to Buy, high quality, within bodies		16	Closed	16	0	0	0	£0.00
455 Medium	Council Tax Reduction Scheme to Right to Buy, medium quality, within bodies		1	Closed	1	0	0	0	£0.00
458.1 High	Council Tax Reduction Scheme to Market Traders, high quality, within bodies		2	Not Opened	0	0	0	0	£0.00
459.1 High	Council Tax Reduction Scheme to Taxi Drivers, high quality, within bodies		36	Opened	15	0	0	0	£0.00
459.2 High	Council Tax Reduction Scheme to Taxi Drivers, high quality, between bodies		1	Closed	1	0	0	0	£0.00
459.3 Medium	Council Tax Reduction Scheme to Taxi Drivers, medium quality, within bodies		1	Closed	1	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
459.4 Medium	Council Tax Reduction Scheme to Taxi Drivers, medium quality, between bodies		1	Closed	1	0	0	0	£0.00
460.3 Medium	Council Tax Reduction Scheme to Personal Alcohol Licence, medium quality, within bodies		1	Not Opened	0	0	0	0	£0.00
460.4 Medium	Council Tax Reduction Scheme to Personal Alcohol Licence, medium quality, between bodies		3	Not Opened	0	0	0	0	£0.00
460.5 Low	Council Tax Reduction Scheme to Personal Alcohol Licence, address quality, within bodies		1	Not Opened	0	0	0	0	£0.00
468 High	Housing Tenants to Council Tax Reduction Scheme, high quality, between bodies		7	Closed	6	0	0	0	£0.00
470 High	Right to Buy to Council Tax Reduction Scheme, high quality, between bodies		1	Closed	1	0	0	0	£0.00
476 High	Council Tax Reduction Scheme to Housing Benefit Claimants, high quality, within bodies		11	Closed	10	0	0	0	£0.00
477 High	Council Tax Reduction Scheme to Housing Benefit Claimants, high quality, between bodies		8	Closed	6	0	0	0	£0.00
480 High	Housing Benefit Claimants to Council Tax Reduction Scheme, high quality, between bodies		5	Closed	4	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2018/2019 **30-Dec-2019**

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
482 High	Council Tax Reduction Scheme to Benefits Agency Deceased Persons, high quality, within bodies		22	Closed	22	0	0	0	£0.00
483 High	Council Tax Reduction Scheme to HMRC Property Ownership		12	Closed	12	0	0	0	£0.00
483.1 High	Council Tax Reduction Scheme to HMRC Earnings and Capital		9	Opened	9	0	0	0	£0.00
483.2 High	Council Tax Reduction Scheme to HMRC Household Composition		202	Opened	40	0	0	1	£420.66
484 High	Housing Benefit Claimants to HMRC Property Ownership		2	Closed	2	0	0	0	£0.00
484.2 High	Housing Benefit Claimants to HMRC Household Composition		40	Closed	40	0	0	0	£0.00
485 High	Housing Tenants to HMRC Property Ownership		28	Not Opened	0	0	0	0	£0.00
485.1 High	Housing Tenants to HMRC Household Composition		78	Not Opened	0	0	0	0	£0.00
489 High	Right to Buy to HMRC Property Ownership		2	Closed	2	0	0	0	£0.00
701 High	Duplicate creditors by creditor name		29	Closed	29	0	0	7	£0.00
702 High	Duplicate creditors by address detail		52	Closed	52	0	0	0	£0.00
703 High	Duplicate creditors by bank account number		10	Closed	10	0	0	8	£0.00
708 High	Duplicate records by invoice amount and creditor reference		524	Closed	500	0	0	1	£10775.09

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2018/2019 **30-Dec-2019**

AUTHORITY SUMMARY: Chesterfield BC

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
709 High	VAT overpaid		40	Closed	40	0	0	0	£0.00
710 High	Duplicate records by creditor name, supplier invoice number and invoice amount but different creditor reference		1	Closed	1	0	0	1	£2777.73
711 High	Duplicate records by supplier invoice number and invoice amount but different creditor reference and name		9	Closed	9	0	0	1	£636.00
713 High	Duplicate records by postcode, invoice amount but different creditor reference and supplier invoice number and invoice date		4	Closed	4	0	0	0	£0.00
750 High	Procurement - Payroll to Companies House (Director), high quality, within bodies		10	Opened	1	0	0	0	£0.00
752 Low	Procurement - Payroll to Companies House (Director), address quality, within bodies		1	Not Opened	0	0	0	0	£0.00
1536 High	Housing Tenants to State Benefits, high quality, between bodies		11	Not Opened	0	0	0	0	£0.00
1538 Medium	Housing Tenants to State Benefits, medium quality, between bodies		4	Not Opened	0	0	0	0	£0.00
9999 Info	Individuals who appear on more than one of the standard reports		295	Not Opened	0	0	0	0	£0.00
TOTAL			**2837**		**1357**	**2**	**0**	**25**	**19173.10**

IMPORTANT : This summary includes matches that occurred in previous years.

For publication

Treasury Management Strategy 2020/21

Meeting:	Standards & Audit Committee Council
Date:	5th February 2020 26th February 2020
Cabinet portfolio:	Deputy Leader
Report by:	Chief Finance Officer

For publication

1.0 Purpose of report

1.1 To approve the Treasury Management Strategy Statement for 2020/21.

1.2 To approve the Capital Strategy Report for 2020/21.

1.3 To approve the Investment Strategy Report for 2020/21.

1.4 To approve the Minimum Revenue Provision (MRP) policy for 2020/21.

2.0 Recommendations

CHESTERFIELD BOROUGH COUNCIL

2.1 That the Treasury Management Strategy Statement be approved.

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

2.3 That the Investment Strategy Report be approved.

2.4 That the Minimum Revenue Provision policy be approved.

3.0 Background

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

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

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

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

3.4 In 2018 the Ministry of Housing, Communities and Local Government completely revised their statutory guidance on

treasury management investments. This included the requirement for the Council to produce an Investment Strategy for non-treasury investments.

4.0 Treasury Management Strategy

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

4.2 The Treasury Management Strategy Statement 2020/21 can be found at Appendix A.

5.0 Capital Strategy Report

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

5.2 The Code was revised in 2017 and introduced the requirement for the Council to produce a capital strategy, with the purpose of demonstrating that capital expenditure and investment decisions are taken in line with service objectives, and take account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy Report 2020/21 can be found at Appendix B.

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

5.4 Capital Expenditure

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

Capital expenditure £millions	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	8.0	9.7	22.1	3.2	1.0
HRA	17.7	24.7	25.9	19.8	16.4
Total	**25.7**	**34.4**	**48.0**	**23.0**	**17.4**

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

Capital expenditure £millions	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Financed by:					
External sources	5.3	2.5	4.3	2.2	0.8
Internal sources	20.4	26.6	28.3	20.8	16.6
Debt	0	5.3	15.4	0	0
Total	**25.7**	**34.4**	**48.0**	**23.0**	**17.4**

5.5 The Council's Borrowing Need - Capital Financing Requirement

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources, and measures the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of

scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The capital financing requirement for 2020/21 and subsequent years includes a £2.1m increase due to a change in the accounting for leases standard.

£millions	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Capital Financing Requirement					
CFR – General Fund	14.9	20.0	36.7	35.5	33.6
CFR – HRA	130.4	128.4	126.5	124.6	122.7
Total CFR	**145.3**	**148.4**	**163.2**	**160.1**	**156.3**
Movement in CFR	**-2.2**	**3.1**	**14.8**	**-3.1**	**-3.8**

Movement in CFR represented by					
Net financing need for the year (above)	0	5.3	15.4	0	0
Increase in CFR due to changes to lease standard	0	0	2.1	0	0
Less MRP/VRP and other financing movements	-2.2	-2.2	-2.7	-3.1	-3.8
Movement in CFR	**-2.2**	**3.1**	**14.8**	**-3.1**	**-3.8**

5.6 Affordability Ratio

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

%	2018/19 Actual	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
General Fund	1.12	1.84	7.33	9.90	9.56
HRA	18.88	18.52	18.16	17.18	16.41

The General Fund ratio increases from 2019/20 to 2021/22 due to increased financing costs associated with the capital programme. Financing costs are also increased in 2020/21 and

subsequent years due to a change to the accounting standard for leases. The HRA ratio decreases steadily over the forthcoming years due to reducing financing costs.

5.7 **External Debt**

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

Limits to Borrowing Activity

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

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

£millions	2019/20 Estimate	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Operational Boundary (£m)	129.3	143.4	141.3	138.5
Operational Boundary – Leases (£m)	0	3.0	3.0	3.0
Authorised Limit (£m)	140.1	158.0	156.0	152.0
Authorised Limit – Leases (£m)	1.0	5.0	5.0	5.0

5.8 **Borrowing Strategy** – The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. The Authority has previously raised the majority of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Authority will now look to borrow any long-term loans from other sources including banks, pensions and local authorities.

6.0 Investment Strategy

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

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

6.3 The Investment Strategy Report 2020/21 can be found at Appendix C.

7.0 Minimum Revenue Provision (MRP) Policy

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

7.2 The Minimum Revenue Provision (MRP) Policy 2020/21 can be found at Appendix D.

8.0 Recommendations

8.1 That the Treasury Management Strategy Statement be approved.

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

8.3 That the Investment Strategy Report be approved.

8.4 That the Minimum Revenue Provision policy be approved.

9.0 **Reasons for recommendations**

9.1 To comply with regulations and recognised best practice.

Decision information

Key decision number	
Wards affected	
Links to Council Plan priorities	

Document information

Report author	**Contact number/email**
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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
This must be made available to the public for up to 4 years.	
Appendices to the report	
Appendix A	Treasury Management Strategy Statement 2020/21
Appendix B	Capital Strategy Report 2020/21
Appendix C	Investment Strategy Report 2020/21
Appendix D	Minimum Revenue Provision (MRP) Policy 2020/21

Treasury Management Strategy Statement 2020/21

Introduction

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

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

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

External Context

Economic background: The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21. The General Election has removed some uncertainty and the Withdrawal Agreement Bill is now expected to pass through Parliament in January. However, uncertainties around the UK's future trading relationship with the EU remain as these have to be concluded in an ambitious transition period timeframe by December 2020.

The Bank of England maintained Bank Rate to 0.75% in December following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

Credit outlook: The recent Bank of England stress tests assessed all seven UK banking groups. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis. Major banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach; timeliness as the results are over 11 months of out date when they are published, being based on end-2018 balance sheets; ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups and; coverage – the tests should be expanded to cover a wider range of UK banks and building societies.

Looking forward, the potential for a no UK-EU trade deal being agreed and ratified and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable.

Outlook

The global economy continues to slow on the back of ongoing geopolitical issues, primarily the trade policy stance of the US and its spat with China. However, it has been reported that Phase I of a trade deal between the two countries will be signed on 15th January 2020.

The UK economy continues to slow due to both post-Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased. Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets over the period, including bond markets.

Parliament passed Prime Minister Boris Johnson's Withdrawal Agreement Bill and the UK will now exit the EU on 31st January 2020. The bill also rules out an extension to the transition period for agreeing a trade deal which means a no-deal Brexit cannot be entirely ruled out for 2020.

Our treasury advisor Arlingclose expects Bank Rate to remain at 0.75% for the foreseeable future but there remain substantial risks to this forecast, dependant on Brexit/trade deal outcomes as well as the evolution of the global economy. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judges the risks to be weighted to the downside.

For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.74%, 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 2019, the Authority held £128.8m of borrowing and £54.1m of treasury investments. This is set out in further detail at page 9. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.19 Actual £000	**31.3.20 Estimate £000**	**31.3.21 Forecast £000**	**31.3.22 Forecast £000**	**31.3.23 Forecast £000**
General Fund CFR	14,906	19,971	36,724	35,579	33,554
HRA CFR	130,358	128,403	126,477	124,580	122,711
Total CFR	**145,264**	**148,374**	**163,201**	**160,159**	**156,265**
Less: Other debt liabilities*	0	0	-2,142	-1,676	-1,193
Less: External borrowing	-129,336	-127,341	-125,373	-123,433	-120,464
Internal borrowing	**15,928**	**21,033**	**35,686**	**35,050**	**34,608**
Less: Usable reserves	-50,776	-45,367	-35,517	-32,867	-31,657
Less: Working capital	-12,699	-13,678	-11,784	-12,183	-12,951
Treasury Investments	**47,547**	**38,012**	**11,615**	**10,000**	**10,000**

* Lease liabilities that form part of the Council's total debt

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

The Authorities General Fund CFR increases in the financial years to 2020/21 due to the capital programme. It then reduces in subsequent years as forecast capital receipts will be used to repay prudential borrowing. The Authority has a reducing HRA CFR. Investments are forecast to fall as useable reserves are utilised to finance the HRA and General Fund capital programmes, however a minimum of £10 million investments will be maintained in order to retain Professional Client status under MiFID 2.

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

Borrowing Strategy

The Authority currently holds £129 million of loans, a decrease of £2 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority does not expect to need to externally borrow in 2020/21. The Authority may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

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

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

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised the majority of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Authority will now look to borrow any long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

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

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

- Public Works Loan Board (PWLB) and any successor body

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

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

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

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

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

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section 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 £38 and £64 million. This amount is expected to decrease in the forthcoming year due to spending on the capital programmes.

Objectives: The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment

income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Negative interest rates: If the UK enters into a recession in 2020/21, 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 2020/21. This is especially the case for the estimated £10m that is available for longer-term investment. A reducing proportion of the Authority's surplus cash remains invested in short-term unsecured bank deposits and certificates of deposit. This diversification will represent a change in strategy over the coming year.

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

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

Table 2: Approved investment counterparties and limits

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

This table must be read in conjunction with the notes below

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

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

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

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

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

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

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

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

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying

properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

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

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

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

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

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

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

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

Table 3: Investment limits

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

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

Treasury Management Indicators

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

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

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	£100,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£250,000

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

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

Refinancing rate risk indicator	**Upper limit**	**Lower limit**
Under 12 months	10%	0%
12 months and within 24 months	10%	0%
24 months and within 5 years	15%	0%
5 years and within 10 years	25%	0%
10 years and within 25 years	70%	20%

25 years and above	75%	20%

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

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

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

Related Matters

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

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

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

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

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account: On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to

individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2020/21 is £0.3 million, based on an average investment portfolio of £40 million at an interest rate of 0.74%. For the General Fund the budget for debt interest paid in 2020/21 is £165k, based on an average debt portfolio of £2.9 million at an average interest rate of 5.65%. For the HRA the budget for debt interest paid in 2020/21 is £4.6 million, based on an average debt portfolio of £124 million at an average interest rate of 3.71%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

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

Existing Investment & Debt Portfolio Position

	31/12/19 Actual Portfolio £m	**31/12/19 Average Rate %**
External borrowing:		
Public Works Loan Board	128.4	3.80
Total external borrowing	**128.4**	**3.80**
Treasury investments:		
Banks & building societies (unsecured)	7.5	1.04
Government (incl. local authorities)	29.0	0.81
Money Market Funds	17.6	0.73
Total treasury investments	**54.1**	**0.81**
Net debt	**74.3**	

Appendix B

Capital Strategy Report 2020/21

Introduction

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

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

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

In 2020/21, the Council is planning capital expenditure of £48.0m as summarised below:

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

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
General Fund services	8.0	9.7	22.1	3.2	1.0
Council housing (HRA)	17.7	24.7	25.9	19.8	16.4
TOTAL	25.7	34.4	48.0	23.0	17.4

The main General Fund capital projects include the Enterprise Centre in respect of the Northern Gateway Scheme (£4.0m), Waterside office Space (£7.8m), Disabled Facilities Grants (£2.0m), Phase 2 of the Town Hall Alterations (£1.8m), Year 3 of the IT Project (£1.1m) and the purchase of vehicles for the waste contract (£1.6m).

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the building of 81 new homes over the forecast period, as well as enhancements to current housing stock.

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

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

Table 2: Capital financing in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
External sources	5.3	2.5	4.3	2.2	0.8
Own resources	20.4	26.6	28.3	20.8	16.6
Debt	0	5.3	15.4	0	0
TOTAL	**25.7**	**34.4**	**48.0**	**23.0**	**17.4**

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

Table 3: Replacement of debt finance in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
General Fund	0.2	0.2	0.4	0.7	1.5
General Fund – Lease Liabilities	0	0	0.5	0.5	0.5
HRA	2.0	2.0	1.9	1.9	1.9

The Minimum Revenue Provision for 2020/21 and subsequent years includes £0.5m due to a change in the accounting for leases standard.

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

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The General Fund CFR is expected to increase by £16.7m during 2020/21 and the HRA CFR is expected to decrease by £1.9m during the same period. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

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

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
General Fund services	14.9	20.0	36.7	35.5	33.6
Council housing (HRA)	130.4	128.4	126.5	124.6	122.7
TOTAL CFR	**145.3**	**148.4**	**163.2**	**160.1**	**156.3**

The capital financing requirement for 2020/21 and subsequent years includes a £2.1m increase due to a change in the accounting for leases standard.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2021/22. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £6.5m of capital receipts in the 2020/21 financial year as follows:

Table 5: Capital receipts in £ millions

	2018/19 actual	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget
General Fund Asset sales	1.6	1.5	2.3	2.5	3.0
Right to Buy Receipts	5.1	4.1	3.1	2.6	2.0
Other HRA Asset sales	0.1	0	1.1	1.1	1.1
TOTAL	**6.8**	**5.6**	**6.5**	**6.2**	**6.1**

Treasury Management

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

Due to decisions taken in the past, the Council currently has £129m borrowing at an average interest rate of 3.80% and £54m treasury investments at an average rate of 0.81%.

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

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

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

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Debt	129.3	127.3	125.4	123.4	120.5
Capital Financing Requirement	145.3	148.4	163.2	160.1	156.3

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

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

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

	2019/20 limit	2020/21 limit	2021/22 limit	2022/23 limit
Authorised limit – borrowing	140.1	158.0	156.0	152.0
Authorised limit - leases	1.0	5.0	5.0	5.0
Operational boundary – borrowing	129.3	143.4	141.3	138.5
Operational boundary – leases	0	5.0	5.0	5.0

The authorised limit and operational boundary for 2020/21 and subsequent years include a £5m increase due to a change in the accounting for leases and the Private Finance Initiative.

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

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

Table 8: Treasury management investments in £millions

	31.3.2019 actual	31.3.2020 forecast	31.3.2021 budget	31.3.2022 budget	31.3.2023 budget
Near-term investments	37.5	28.0	1.6	0	0
Longer-term investments	10.0	10.0	10.0	10.0	10.0
TOTAL	**47.5**	**38.0**	**11.6**	**10.0**	**10.0**

Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Finance Officer and staff, who must act in line with the treasury management strategy approved by Council. Regular reports on treasury management activity are

presented to Council. The Standards and Audit Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

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

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

Commercial Activities

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

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

Liabilities

In addition to debt of £129m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £79.9m) This deficit is planned to be reduced to a break-even position over the next 19 years.

Revenue Budget Implications

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

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

	2018/19 actual	**2019/20 forecast**	**2020/21 budget**	**2021/22 budget**	**2022/23 budget**
Financing costs General Fund(£000)	122	183	779	1,017	1,003
Financing costs HRA (£000)	6,725	6,565	6,468	6,350	6,273
Proportion of net revenue stream General Fund	1.12%	1.84%	7.33%	9.90%	9.56%
Proportion of net revenue stream HRA	18.88%	18.52%	18.16%	17.18%	16.41%

General Fund financing costs for 2020/21 and subsequent years include a £0.5m increase due to a change in the accounting for leases and the Private Finance Initiative.

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

Knowledge and Skills

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

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

Investment Strategy Report 2020/21

Introduction

The Authority invests its money for three broad purposes:

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

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £48m and £12m during the 2020/21 financial year.

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

Further details: Full details of the Authority's policies and its plan for 2020/21 for treasury management investments are covered in Appendix A of this report.

Service Investments: Loans

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

The only service loan that the Council currently has outstanding is a £200,000 balance on a start-up loan that was made to the Derbyshire Building Control Partnership during the 2017/18 financial year. The Authority is a shareholder in the company, along with 5 other Derbyshire Local Authorities.

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

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018/19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments. In the case of the loan to the Derbyshire Building Control

Partnership each of the 5 other shareholders have guaranteed 1/6th of the loan, therefore the Council's maximum loss is limited to £33,333.

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

Commercial Investments: Property

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

Table 1: Property held for investment purposes in £ millions

Type of Property	**Value in accounts 31.03.2019**
Industrial Units and Trading Estates	23.6
Retail and Office	14.7
Undeveloped Land	9.6
TOTAL	**47.9**

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

A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2019/20 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

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

Income: The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. The net amount of investment income (after operating expenses) received in 2018/19 was £2.7m, this equated to 5.1% of all general fund income received and a similar amount is budgeted for in 2020/21. Income received is monitored on a regular basis and any expected shortfall would be reported in the revised budget

Risk assessment of future commercial investments: The Chief Finance Officer will assess the risk of loss before entering into and whilst holding commercial property investments. Due consideration will be given to the risks relating to failure to create income/exposure to market changes, ongoing

maintenance/management of the asset, possibility of arrears and exposure in one sector or locality. External advice will be sought for any investments requiring specific expertise.

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

Capacity, Skills and Culture

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

Investment Indicators

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

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

Table 2: Total investment exposure in £millions

Total investment exposure	31.03.2019 Actual	31.03.2020 Forecast	31.03.2021 Forecast
Treasury management investments	48.0	38.0	11.6
Service investments: Loans	0.2	0.15	0.1
Commercial investments: Property	47.9	47.9	47.9
TOTAL EXPOSURE	96.1	86.05	59.6

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

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

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

Investments net rate of return	**2018/19 Actual**	**2019/20 Forecast**	**2020/21 Forecast**
Treasury management investments	0.78%	0.80%	0.74%
Service investments: Loans	4.85%	4.85%	4.85%
Commercial investments: Property	5.69%	5.69%	5.69%

Appendix D

Minimum Revenue Provision Statement 2020/21

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

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

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

> For capital expenditure incurred before 1st April 2008, MRP will be determined by charging the remaining expenditure over 40 years as the principal repayment on an annuity with an annual interest rate of 2%.
>
> For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 2%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
>
> For assets acquired by leases MRP will be determined as being equal to the element of the charge that goes to write down the balance sheet liability.
>
> For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

Capital expenditure incurred during 2020/21 will not be subject to an MRP charge until 2021/22.

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

	31.03.2020 Estimated CFR £	2020/21 Estimated MRP/VRP £
Capital expenditure before 01.04.2008	5,036,137	93,203
Unsupported capital expenditure after 31.03.2008	14,935,296	230,123
Total General Fund	**19,971,433**	**323,326**
Assets in the Housing Revenue Account	128,402,677	1,926,040
Total Housing Revenue Account	**128,402,677**	**1,926,040**