

Public Document Pack

9 March 2018

Our Ref Finance, Audit and Risk
Committee/21.3.18

Your Ref.

Contact. Ian Gourlay

Direct Dial. (01462) 474403

Email. ian.gourlay@north-herts.gov.uk

To: Members of the Committee: Councillor Terry Hone (Chairman), Councillor Simon Harwood (Vice-Chairman), Councillor Ian Albert, Councillor John Bishop, Councillor Jim McNally, Councillor Deepak Sangha and Councillor Terry Tyler.

Substitutes: Councillor Clare Billing, Councillor John Booth, Councillor Nicola Harris and Councillor Steve Jarvis.

You are invited to attend a

MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE

to be held in the

**FOUNDATION HOUSE, ICKNIELD WAY, LETCHWORTH
GARDEN CITY**

On

WEDNESDAY, 21ST MARCH, 2018 AT 7.30 PM

Yours sincerely,



David Miley
Democratic Services Manager

Agenda **Part I**

Item	Page
1. APOLOGIES FOR ABSENCE	
2. MINUTES - 22 JANUARY 2018 To take as read and approve as a true record the minutes of the Meeting of this Committee held on 22 January 2018.	(Pages 1 - 6)
3. NOTIFICATION OF OTHER BUSINESS Members should notify the Chairman of other business which they wish to be discussed by the Committee at the end of the business set out in the agenda. They must state the circumstances which they consider justify the business being considered as a matter of urgency. The Chairman will decide whether any item(s) raised will be considered.	
4. CHAIRMAN'S ANNOUNCEMENTS Members are reminded that any declarations of interest in respect of any business set out in the agenda, should be declared as either a Disclosable Pecuniary Interest or Declarable Interest and are required to notify the Chairman of the nature of any interest declared at the commencement of the relevant item on the agenda. Members declaring a Disclosable Pecuniary Interest must withdraw from the meeting for the duration of the item. Members declaring a Declarable Interest which requires they leave the room under Paragraph 7.4 of the Code of Conduct, can speak on the item, but must leave the room before the debate and vote.	
5. PUBLIC PARTICIPATION To receive petitions, comments and questions from the public. At the time of preparing the agenda no requests to speak had been received. Any public participation received within the agreed time scale will be notified to Members as soon as is practicable.	
6. EXTERNAL AUDIT UPDATE REPORT FROM ERNST AND YOUNG <i>To consider the External Audit Update report.</i>	(Pages 7 - 16)
7. LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING REPORT FROM ERNST AND YOUNG <i>To consider the latest Local Government Audit Committee Briefing paper.</i>	(Pages 17 - 30)

- 8. SHARED INTERNAL AUDIT SERVICES - UPDATE ON PROGRESS AGAINST THE 2017/18 AUDIT PLAN** (Pages 31 - 48)
REPORT OF THE SHARED INTERNAL AUDIT SERVICES CLIENT AUDIT MANAGER

To consider an update on the progress of the Shared Internal Audit Services (SIAS) against the 2017/18 Audit Plan.
- 9. NHDC AUDIT PLAN FOR 2018/19** (Pages 49 - 68)
REPORT OF THE SHARED INTERNAL AUDIT SERVICES CLIENT AUDIT MANAGER

To consider the proposed NHDC Audit Plan for 2018/19.
- 10. SHARED ANTI-FRAUD SERVICES (SAFS) - PROPOSED ANTI-FRAUD PLAN FOR 2018/19** (Pages 69 - 112)
REPORT OF THE SHARED ANTI-FRAUD SERVICE MANAGER

To consider the proposed Shared Anti-Fraud Service Anti-Fraud Plan for 2018/19.
- 11. RISK MANAGEMENT UPDATE** (Pages 113 - 122)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider a Risk Management Update.
- 12. LOCAL CODE OF CORPORATE GOVERNANCE AND ANNUAL GOVERNANCE STATEMENT ACTIONS (PLAN 2016/17) UPDATE** (Pages 123 - 142)
REPORT OF THE ACTING CORPORATE LEGAL MANAGER

To consider the Local Code of Corporate Governance and Annual Governance Statement Actions (Plan 2016/17) update.
- 13. THIRD QUARTER REVENUE MONITORING 2017/18** (Pages 143 - 152)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the Third Quarter Revenue Monitoring report for 2017/18.
- 14. THIRD QUARTER CAPITAL MONITORING 2017/18** (Pages 153 - 168)
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

To consider the Third Quarter Capital Monitoring report for 2017/18.

- 15. TREASURY MANAGEMENT THIRD QUARTER 2017/18** (Pages
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET 169 -
MANAGEMENT 186)

To consider the Third Quarter Treasury Management Monitoring report for 2017/18.

- 16. STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS** (Pages
REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET 187 -
MANAGEMENT 192)

To consider the Statutory Guidance on Local Government Investments issued by the Ministry of Housing, Communities and Local Government.

- 17. FUTURE MEETING - POSSIBLE AGENDA ITEMS**
Introduced by the Chairman.

NORTH HERTFORDSHIRE DISTRICT COUNCIL

FINANCE, AUDIT AND RISK COMMITTEE

MEETING HELD IN THE FOUNDATION HOUSE, ICKNIELD WAY, LETCHWORTH
GARDEN CITY ON MONDAY, 22ND JANUARY, 2018 AT 7.30 PM

MINUTES

Present: *Councillors Councillor Terry Hone (Chairman), Ian Albert, Nicola Harris (substitute), Steve Jarvis (substitute)(from 7.36pm), Jim McNally and Deepak Sangha.*

In Attendance: *Ian Couper (Head of Finance, Performance and Asset Management), Antonio Ciampa (Accountancy Manager), Ian Gourlay (Committee and Member Services Manager) and Suresh Patel (Associate Partner, Ernst and Young).*

Also Present: *Councillor Julian Cunningham (Executive Member for Finance and IT).*

59 APOLOGIES FOR ABSENCE

Apologies for absence were submitted on behalf of Councillors John Bishop and Simon Harwood (Vice-Chairman) and Terry Tyler. Councillor Nicola Harris was substituting for Councillor Bishop, and Councillor Steve Jarvis was substituting for Councillor Tyler.

60 MINUTES - 18 DECEMBER 2017

RESOLVED: That the Minutes of the Meeting of the Finance, Audit and Risk Committee held on 18 December 2017 be confirmed as a true record of the proceedings and be signed by the Chairman.

61 NOTIFICATION OF OTHER BUSINESS

There was no other item of business tabled.

62 CHAIRMAN'S ANNOUNCEMENTS

(1) The Chairman announced that Members of the public and the press may use their devices to film/photograph, or do a sound recording of the meeting, but she asked them to not use flash and to disable any beeps or other sound notifications that emitted from their devices. In addition, the Chairman had arranged for the sound at this particular meeting to be recorded; and

(2) The Chairman reminded Members that, in line with the Code of Conduct, any Declarations of Interest needed to be declared immediately prior to the item in question.

63 PUBLIC PARTICIPATION

There was no public participation.

64 EXTERNAL AUDIT PLAN FOR THE YEAR ENDING 31 MARCH 2018

The Associate Partner, Ernst and Young, presented the External Audit Plan for the year ending 31 March 2018.

The Associate Partner confirmed that there had been no change by the National Code of Practice for Auditors to the scope of the audit required to be carried out by Ernst and Young. The 2017/18 audit strategy was summarised in the Plan, including audit risks, areas of focus and materiality. There were no changes to the risks set out in the document, the first two being classified as significant risks driven by auditing standards, and the other two being inherent risks, given the size of the estimates they represented in the Council's balance sheet.

In respect of the materiality figures set out in the Plan, the Associate Partner commented that the key message for NHDC was that these were at the top of Ernst and Young's limit, which reflected the low risk status of the audit, due to the good preparation of the accounts.

The Associate Partner drew attention to the value for money risk set out in the Plan with regard to the level of savings required to be delivered by the Council over the next three years. Ernst and Young's approach to monitor this risk was also set out in the document.

The Associate Partner referred to the timetable for the audit included in the Plan, and he reminded the Committee that the deadline for production and auditing of the accounts had been brought forward significantly (accounts prepared by the end of May and audited by the end of July).

The Associate Partner explained that the fees for Ernst and Young's services, as set out in Appendix A to the Plan, were as defined by Public Sector Audit Appointments Limited (PSAA).

RESOLVED: That the External Audit Plan for the Year Ending 31 March 2017 be noted.

REASON FOR DECISION: To enable the Committee to comment on the External Audit Plan for the Year Ending 31 March 2018.

65 CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2016/17

The Associate Partner, Ernst and Young, presented the Certification of Claims and Returns Annual Report 2016/17.

The Associate Partner advised the one claim applicable to NHDC was the Housing Benefits Subsidy Claim. Certification work on the claim was as prescribed by the Department for Work and Pensions (DWP).

The Associate Partner reported that the DWP required the reporting of even the most minor discrepancies, which was why the respective errors of £0.78 and £144.96 were set out in the report. He commented that these were extremely minor when compared to the discrepancies in the claims of other Authorities, which was a credit to how well NHDC had administered the claim.

The Associate Partner referred to the fee for the work set out in Section 2 of the report. A reduction in the indicative fee had been proposed on the basis that it had been agreed at the start of the process that NHDC would carry out some of the initial testing. The approval of PSAA Ltd to this reduced fee was currently awaited.

The Associate Partner commented that the report also highlighted the change for 2018/19, where NHDC would need to appoint a "reporting accountant" to carry out this certification work. At the Council's request, Ernst and Young would be preparing a quotation for this work, in the hope that it would be in the Council's interests to appoint them on the basis of their familiarity with NHDC's systems and processes.

RESOLVED: That the Certification of Claims and Returns Annual Report 2016/17 be noted.

REASON FOR DECISION: To enable the Committee to comment on the Certification of Claims and Returns Annual Report 2016/17.

66 DRAFT REVENUE BUDGET 2018/2019

The Head of Finance, Performance and Asset Management presented a report in respect of the proposed Revenue Budget for 2018/19.

The Head of Finance, Performance and Asset Management advised that he would be focussing on the changes to the draft Revenue Budget since the last meeting of the Committee in December 2017.

The Head of Finance, Performance and Asset Management referred to paragraph 8.2.5 and Table 3 of the report, which confirmed that the additional flexibility for Councils to increase their Council Tax by up to 2.99% was for two financial years (2018/19 and 2019/20). Therefore, as per the Council's Medium Term Financial Strategy, the financial modelling assumed that the increase would apply for those two years.

The Head of Finance, Performance and Asset Management drew attention to Paragraph 8.3.5 and Table 6 of the report, which set out the level of budget risks. There had been an increase in the risk allowance to reflect changes in planning, both in relation to the North Hertfordshire Local Plan Examination (which was taking longer than originally anticipated) and other emerging planning issues, such as the Oxford-Cambridge Arc and London expansion. The need to respond to those issues and promote the views of NHDC had been identified.

The Head of Finance, Performance and Asset Management advised that Table 7 of the report highlighted the larger variances found in the review of the 2017/18 budget at the end of Month 8 (November 2017). The impact on the 2018/19 budget of a reduction in expenditure of £82,000 was relatively small and had been built into forecasts.

In respect of Paragraph 8.5.3 and Table 8 of the report, the Head of Finance, Performance and Asset Management advised that this detailed the changes made by the Cabinet at its December 2017 meeting. Some of these had now been reflected in the budget as these were within the Cabinet's remit to change, whilst others would require the approval of the Full Council in February 2018. The impact of these proposals was shown in Table 8.

The Head of Finance, Performance and Asset Management stated that Section 8.6 and Appendix 1 of the report summarised the budget position, and included a forecast of the remaining savings that the Council still needed to identify by 2021/22, which were expected to be around £150,000. However, this amount could be significantly affected by a number of factors, including changes to the way New Homes Bonus was calculated in future years; changes to the Fair Funding Formula, which was currently being consulted on by the Department for Communities and Local Government (now Ministry of Housing, Communities and Local Government), with any changes likely to be implemented from 2020/21; and the successful delivery of the savings included within the budget forecasts.

In response to issues raised by the Committee Chairman, the Head of Finance, Performance and Asset Management predicted a surplus of around £200,000 on the Council Tax Collection Fund at the end of 2017/18, which would be retained in the Fund for 2018/19. He confirmed that work had already commenced on the Third Quarter Monitoring report, and to date no unexpected issues had been identified.

Some Members expressed continued concern about Efficiency E9 (Cessation of Area Committee Grants), in that whilst it was welcomed that Cabinet had taken on board the fact that there was no agreed replacement for Area Committees and had deferred the matter for a year, they felt that this efficiency saving was the first step in the dissolution of the Area Committees by transferring the grants budget to a Member Panel, in advance of the discussion and decision on any replacement mechanism for Area Committees. Those Members felt that the grants budget should remain with Area Committees for 2018/19.

Monday, 22nd January, 2018

Further concern was expressed by a Member about the grant-making process. He felt that a more cost effective way of administering the process should be investigated as part of any changes the Council would be making to the way the Council made grants.

In respect of Efficiency E16 (Apprenticeship Scheme), the Chairman was pleased to see that the Scheme would continue for the 2018/19 Financial Year.

In reply to a question regarding Efficiency E20 (Waste Contract Lot 2 Award), the Head of Finance, Performance and Asset Management advised that it was expected that the savings attributable to this item would be zero.

In response to queries regarding Efficiency E21 (Waste Contract – Garden Waste Charging), the Head of Finance, Performance and Asset Management explained that that the 26% take up of the scheme assumed 50% of that 26% taking up the early bird offer (estimated reduction in income of around £30,000). He added that it was his understanding that the early bird offer would be disseminated to all residents in the District by letter in early February 2018.

RECOMMENDED TO CABINET: That the following comments of the Finance, Audit and Risk Committee be taken into consideration by the Cabinet during its deliberations on the Draft Revenue Budget for 2018/19:

- E9 – Cessation of Area Committee Grants – concern was expressed regarding the transfer of Area Committee grants budgets to a Member Panel, in advance of the discussion and decision on any replacement mechanism for Area Committees; and as part of any changes to the grants-making process, a more cost-effective way of administering the grants should be investigated.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the proposed Revenue Budget for 2018/19.

67 CAPITAL PROGRAMME 2018/2019 ONWARDS

The Accountancy Manager presented the report of the Head of Finance, Performance and Asset Management in respect of the proposed Capital Programme for 2018/19 onwards.

The Chairman explained that the years set out in recommendation 2.2 of the report should be amended from “2017/18 to 2020/21” to “2018/19 to 2021/22”.

The Accountancy Manager advised that the new Capital Investment proposals and revision to existing proposals totalled £3.275Million over the next four year period. The overall Capital Programme over the same period would be £17.075Million.

The Accountancy Manager stated that the report set out how the Council proposed to fund the Capital programme. As mentioned in paragraph 8.6 of the report, if the Council spent exactly in line with the Capital programme set out in the appendices, then the Council would not have sufficient capital resources in 2018/19, and hence either a revenue contribution to capital or borrowing would be required to fund the expenditure. However, past experience had shown that Capital spend did not always occur in line with profiled expenditure.

The Accountancy Manager commented that the funding of the Capital Programme assumed the generation of Capital Receipts of around £8.5Million from asset disposals. Appendix A to the report provided a breakdown of expenditure by Council objective and how it would be funded each year; Appendix B provided a line by line breakdown of the Capital Programme, including projects completed in 2017/18; and Appendix C itemised the new Capital proposals and the changes to existing proposals.

Monday, 22nd January, 2018

In response to a question regarding ECP 12 (Hitchin Swimming Pool Car Park Extension), the Head of Finance, Performance and Asset Management confirmed that the outcome of the Public Inquiry held into this matter was still awaited. He undertook to ensure that Members were informed of the outcome as soon as notification was received.

RESOLVED: That the Capital Programme 2018/19 onwards be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the proposed Capital Programme for 2018/19 onwards.

68 TREASURY MANAGEMENT STRATEGY FOR 2018/2019

The Head of Finance, Performance and Asset Management presented a report in respect of the proposed Treasury Management Strategy for 2018/19.

The Head of Finance, Performance and Asset Management highlighted the two main changes proposed for the 2018/19 Strategy in respect of borrowing limits and the Minimum Revenue Provision (MRP).

With regard to Paragraph 2.3 of the Strategy, the Head of Finance, Performance and Asset Management advised that where the Council was in a borrowing position or needed to borrow due to lack of capital resources, it was required to charge a MRP to the General Fund. It had to set aside a provision to repay that loan when it became due. It was recommended that the Council used the Asset Life Method for the MRP. The two approaches for applying the Asset Life Method, namely Equal Instalments or Annuity, were set out in the Strategy.

The Head of Finance, Performance and Asset Management referred to paragraph 3.2 of the Strategy, which detailed the limits to borrowing activity. It was proposed to increase the operational boundary for external debt from £4Million to £5Million and to increase the authorised limit for external debt from £6Million to £15Million.

RESOLVED: That the Treasury Management Strategy for 2018/19 be noted.

REASON FOR DECISION: To provide an opportunity for the Committee to comment as appropriate on the proposed Treasury Management Strategy for 2018/19.

69 FUTURE MEETING - POSSIBLE AGENDA ITEMS

The Chairman was reminded that he had agreed to liaise with the Chairman of the Overview and Scrutiny Committee regarding the process for scrutinising and reviewing the emerging Parking Strategy.

The Committee was advised that it was proposed to run a training course on risk management in the near future. The Chairman strongly encouraged Members of the Committee and substitutes to attend this training course.

The meeting closed at 8.26 pm

Chairman

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FINANCE, AUDIT & RISK COMMITTEE 21 MARCH 2018
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*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 6
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TITLE OF REPORT: EXTERNAL AUDIT UPDATE

REPORT FROM ERNST AND YOUNG

The above report is attached.

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North Hertfordshire District Council
Finance, Audit & Risk Committee Progress Report
February 2018
Year ended 31 March 2018



26 February 2018



Finance, Audit & Risk Committee
North Hertfordshire District Council

Dear Committee Members

Progress Report: Year ending 31 March 2018

We are pleased to attach our Audit Update Report. This report summarises the work we have undertaken to date and our plans for the remainder of the 2017/18 year. The purpose of the report is to provide the Finance, Audit & Risk Committee with an overview of the stage we have reached in our planning for the 2017/18 audit and ensure our audit is aligned with the Committee's service expectations.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audits.

Yours faithfully

Suresh Patel
Associate Partner for and on behalf of Ernst & Young LLP
United Kingdom
Enc



2017/18 audit

Faster close

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year with the Council needing to prepare draft accounts by 31 May and publish audited accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- ▶ The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required.
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ Good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ Appropriate Council staff to be available throughout the agreed audit period; and
- ▶ Complete and prompt responses to audit questions.

If the Council is unable to meet key dates within our agreed timetable, we will notify your Section 151 Officer of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify the Section 151 Officer of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to the audit while we complete other work elsewhere.

To support the Council we will:

- ▶ Work with the Council to engage early to facilitate early substantive testing where appropriate. We have set out below in a table where we had planned to undertake early work following a meeting with officers in November 2017 and whether we have successfully completed that work.
- ▶ Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- ▶ Work with the Council to implement EY Client Portal, this will:
 - Streamline our audit requests through a reduction of emails and improved means of communication;
 - Provide on -demand visibility into the status of audit requests and the overall audit status;
 - Reduce risk of duplicate requests; and
 - Provide better security of sensitive data.
- ▶ Agree the supporting working papers that we require to complete our audit.



2017/18 audit

Update on planned early work

Early testing	EY Update
Income testing period 1-8	Interim work complete.
Expenditure P1-8	Interim work complete.
Payroll 1-9	Interim work complete.
Accounting policies	Not available to audit in January
PPE - Additions P 1-9	Interim work complete.
PPE- Disposals	No material disposals at interim.
PPE - Existence	Postponed to final audit, no major changes to assets anticipated
Investment property income	Rental income note information not available to audit in January
Related party transactions	Not available to audit in January
Exit Packages 1-9	Interim work complete.
Grant income	Interim work complete.
Precepts	Interim work complete.
Significant contract review	Interim work complete.
Collection fund analytical review	Interim work complete
Journals 1-8	Interim work complete.
Valuation	Valuation schedule provided which shows an 8% increase in overall property values, this is not in Excel format and identifying the impact on fixed asset register which is not updated until later in the year is time consuming. We have some time in April and will undertake further work then.
Audit fee note	Interim work complete.



2017/18 audit

Planning and interim visit

We are required to give an audit opinion on whether the financial statements of North Hertfordshire District Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended. We can confirm at this stage that there are no changes to the risks we identified and reported to the Finance, Audit & Risk Committee in our Audit Plan in January 2018.

We have completed our interim audit and have

- ▶ Undertaken our walkthrough testing. The Council has moved to Integra 2 and we need to walkthrough transactions using the new system for accounts payable and receivable and we have booked staff to undertake this in the week beginning 9th April; and
- ▶ Performed early substantive testing as set out in the table in the preceding section.

We have used our computer-based analytics tools to enable us to capture and analyse whole populations of your financial data, in particular payroll, and journal entries.

Post statements visit

We have agreed the dates for our post statements audit visit, and we will have early discussions on your supporting working papers and their availability for the audit.

We introduced the finance team to our online Client Portal. This will enhance our communication on raising critical issues as soon as they arise and enable us to work even better with them to propose pragmatic solutions. It also enables the finance team to make real time updates to the Client Assistance Schedule and see our progress with the audit.

Value for money

We identified and reported in the Audit Plan, a significant risk in relation to the Council's savings targets. We have identified no change to our risk assessment.

We will be completing as much of our value for money conclusion work as we can in April. Our work will then need to be updated in the light of the Council's outturn position and by our review of the annual governance statement, narrative report and the Head of Internal Audit report.

Certification of claims and returns

We will be required to undertake work on the certification of the Council's housing benefits return. We will need to undertake some high level procedure on this as part of our year-end audit of the financial statements. Our detailed testing of cases will be performed after the year-end audit.



Other issues of interest

In addition to our formal reporting and deliverables we provide practical business insights and updates on regulatory matters through our Sector Briefings.



Timetable

Audit phase	EY Timetable	Deliverable	Reported	Status
High level planning	Ongoing	Audit Fee Letter	March 2017	Completed
Risk assessment and setting of scope of audit	Dec '17 - Jan '18	Audit Plan	January 2018	Completed
Testing of routine processes and early substantive testing	Jan '18 - Apr '18	If required reporting to management and the Finance, Audit & Risk Committee	March 2018 (this update)	In progress
Par-end audit	Beginning 2 July for 3 weeks	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	July 2018	Yet to commence
Completion	Sept '18	Annual Audit Letter	September 2018	Yet to commence

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ED None

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FINANCE, AUDIT & RISK COMMITTEE 21 MARCH 2018
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*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 7
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TITLE OF REPORT: LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING

REPORT FROM ERNST AND YOUNG

The above report is attached.

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Local Government Audit Committee Briefing



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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.





Government and economic news

Will the UK economy hold up as Brexit nears?

The latest forecast from the EY Item Club highlights that UK GDP growth in 2017 was 1.8%, which was better than expected. However, it does compare unfavourably with 2017 GDP growth of 2.5% for the Eurozone, 2.3% for the US and an estimated 3.0% globally.

The momentum from 2017, an improving outlook for consumer spending, and the increased likelihood of a near-term Brexit transition arrangements are expected to support UK growth this year. With this, we have nudged up our UK GDP forecast for 2018 to 1.7%, up from the 1.4% we predicted in our Autumn forecast in October last year.

However, further out, the UK's limited productivity performance and ongoing Brexit and political uncertainties will see the UK achieve only mid-range growth. With this, we have slightly reduced our GDP growth projections for 2019 to 1.7% (down from 1.8%), 1.9% for 2020 (down from 2.0%), and 2.0% for 2021 (down from 2.2%). Although we have modestly downgraded our expectation of the UK's productivity performance, it remains more optimistic than the Office for Budget Responsibility's latest forecast. Specifically, we forecast output per hour to rise 0.9% in 2018 and then 1.3% annually during 2019-2021.

Much depends on how the Brexit negotiations develop.

The expectation is that the UK and EU will make sufficient progress to agree a transition arrangement lasting at least two years, from late March 2019. Since this will have to be ratified across the EU, agreement essentially needs to be reached by October 2018. Progress towards a transition deal in late 2018 should support business confidence and a gradual pick-up in investment, helping GDP growth accelerate.

Provisional 2018-19 Local Government Finance Settlement

On 19th December 2017 the Government set out the provisional funding plan for the 2018-19 financial year, which will be the third year of the four year multi-year settlement that was accepted by 97% of local authorities. The main themes of the provisional settlement were:

Council tax referendum principles – as a result of the financial settlement consultation process the government has decided to set the core referendum principle at 3% in 2018-19 and 2019-20, to match the higher than expected inflation. This change will give local authorities more flexibility in deciding how money will be raised to offset the increasing financial pressures and demand on services. Shire district councils will be allowed an increase of 3% or £5 whichever is higher.



Continuation of the adult social care precept principle of a 2% increase, with the additional flexibility in 2018-19 to increase the precept by an additional 1%, from 2% to 3%, provided that the total increase across the three years 2017-18 to 2019-20 does not exceed 6%.

Analysis by the Local Government Association has estimated that the impact of increased flexibility in council tax precepts could be worth up to £540mn to local authorities by 2019-20. However local services are facing a total funding gap of £5.8bn in 2019-20. Therefore, the increased powers to raise council tax are not sufficient to meet the future funding gap.

Business rate retention – the Government's continued intention to reform local government financing in the future by allowing authorities to retain a greater percentage of business rates instead of receiving certain grants (including RSG, public health grant) direct from central government. By 2020-21 it is estimated that the business rate retention across the local government system would be 75%, compared to the current level of 50% retention. It was also announced that the 100% business rates retention pilot schemes were going to be expanded to include a further 10 local authorities.

New homes bonus – since inception the new home bonus has allocated £7bn to local authorities to encourage the building of over 1.2 million new homes. The Government has decided to continue to set the national baseline (below which no bonus will be paid) at 0.4% for 2018/19. The national baseline represents the annual growth of Band D properties within a local authority above which the new homes bonus will be awarded. Government retained the option to adjust the baseline in future years based on housing statistics as reported through council tax base figures. This stability will provide some security for district authorities who have based their growth strategy on the New Homes Bonus.

Carillion liquidation

Major public sector building and support services contractor Carillion plc went into compulsory liquidation on 15 January 2018. Carillion's sudden collapse is being felt across the country as a range of public services, from road building to school meals, have been unexpectedly terminated in a number of local authorities.

The full extent of the affected services is yet to be determined as local authorities discuss existing contracts with the Official Receiver. Local authorities are implementing contingency plans where possible, including either finding alternative contractors or taking services back in house. For example the response from Oxfordshire County Council in relation to the provision of school meals at 90 schools supplied by Carillion was to guarantee Carillion staff who worked in schools that the county council would ensure that they were paid.

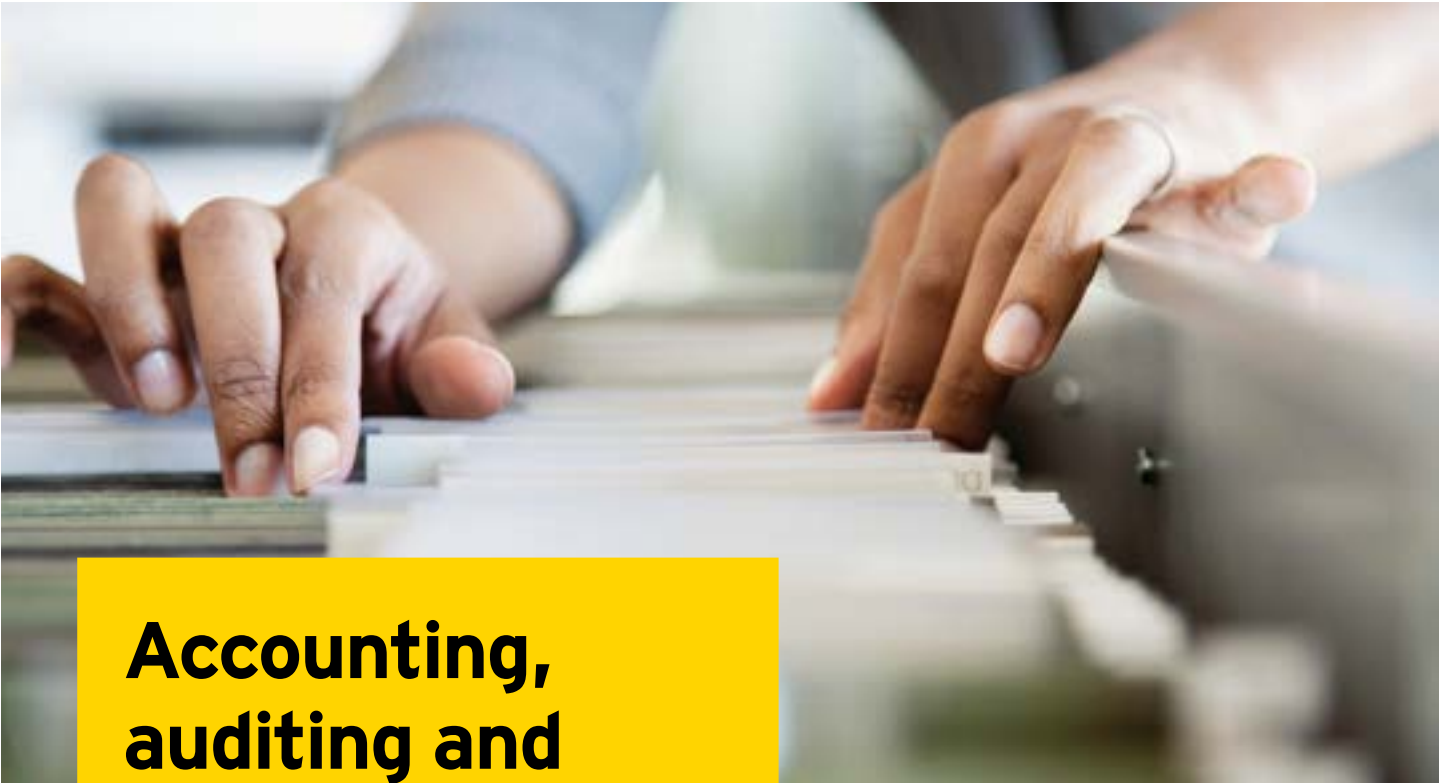
Although the Government has pledged that public services 'will be protected' after Carillion's collapse, it is unclear how or when funding from central Government will be made available to the affected local authorities.

Public sector pay

Since 2013, the Government has implemented a policy of a 1% annual pay increase cap for public sector workers; which was estimated to have saved approximately £5bn by 2019-20. In the Autumn Budget 2017 the Government confirmed the end of the 1% pay increase policy. Therefore from 2018-19, pay review bodies will be able to award pay increases of greater than 1% as they determine to be appropriate. After the long freeze in real terms of public sector pay future increases above 1% have been welcomed; and it is thought that this has been needed to retain talent within the public domain. However, this will be an additional cost pressure for local authorities that will require financing.

The national employers, who negotiate pay on behalf of 350 local authorities, suggested that most employees with salaries over £19,430 should receive a 2% increase for 2018-19 and a further 2% for 2019-20. Lower salaried workers will receive higher increases based on hourly pay; from £7.78 to £9.00 in April 2019 and increase equivalent to 15.65%. National employers have said this would add another 5.6% to the national pay bill over the two years to 2020.





Accounting, auditing and governance

IFRS 15 – revenue from contracts with customers

The new revenue standard, IFRS 15, creates a single source of revenue requirements for all entities in all industries and is a significant departure from legacy IFRS. The new standard applies to revenue from contracts with customers and replaces all of the legacy revenue standards and interpretations in IFRS, including IAS 11 Construction Contracts and IAS 18 Revenue.

IFRS 15 is principles-based but provides more application guidance and increased judgement. IFRS 15 also specifies the accounting treatment for certain items not typically thought of as revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain non-financial assets. The new standard will have little effect on some entities, but will require significant changes for others.

The standard describes the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance

Entities will need to exercise judgement when considering the terms of the contract(s) and all of the facts and circumstances, including implied contract terms. Entities will also have to apply the requirements of the standard consistently to contracts with similar characteristics and in similar circumstances.

The 2018/19 Code of practice on Local Authority Accounting in the United Kingdom (the Code) will determine how IFRS 15 revenue from customers with contracts will be adopted by local government bodies. The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The CIPFA/LASAAC Local Authority Accounting Code



Board met on 6 June 2017 and discussed the implication of IFRS 15 on Local Government entities. The minutes of this meeting corroborate our view that for most entities income streams from contracts with customers are likely to be immaterial. The vast majority of income streams are taxation or grant based which do not fall within the scope of IFRS 15 as they are not contractually based revenue from customers.

However, this may not always be the case for some smaller English authorities or authorities where there is a high public interest in commercial activities. The following income streams are within the scope of IFRS 15 and will need special consideration if they are material to the users of the financial statements:

- ▶ Fees and charges for services under statutory requirements
- ▶ Sale of goods provided by the authority
- ▶ Charges for services provided by a local authority

EY – CIPFA Accounts Closedown Workshop 2017-18

EY and CIPFA Financial Advisory Network (FAN) are continuing to work in partnership to deliver a programme of accounts closedown workshops to support local government finance professionals across the country with separate events for police bodies and English, Welsh and Scottish local authorities. The workshop programme covers the key changes impacting on the production of the 2017/18 financial statements and the outcomes of the 'telling the story' changes to the Code of Practice on Local Authority Accounting in 2016/17. Looking forward there are significant changes to IFRS that will come through in the 2018/19 Code and later, so the workshops are also focused on the key risks in relation to the new Financial Instruments standard IFRS 9 and other future expected changes in the Code with potential to impact on the General Fund and the HRA. These workshops also aim to prepare local authority finance staff for a 'faster, smarter and more accurate' accounts closedown for 2017-18.

By the end of this May, your local authority will need to publish its unaudited statement of accounts and publish audited accounts by the end of July. These changes provide risks for

both the preparers and the auditors of the financial statements. Local Authorities will now have less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Failure to meet a deadline at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ Good quality draft financial statements and supporting working papers by the agreed deadline
- ▶ Appropriate staff to be available throughout the agreed audit period
- ▶ Complete and prompt responses to audit questions

If your authority is unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Of the 150 authorities we audit, we currently consider that around a quarter have left themselves a significant amount of work to do to get there and are running a real risk of missing the deadline because they will not have quality draft accounts and supporting evidence ready for their auditors by the end of May.

In addition to our workshops with CIPFA, we have held events in each of our local offices and gathered insights from over 100 practitioners and their local audit teams on the importance of what finance teams and auditors each need to do, and collaboratively, to achieve a successful faster closure. We have put together a comprehensive list of actions to streamline processes, work more collaboratively with their auditors and draw on EY's analytics and innovative audit approach to achieve faster close. We include a summary below.



Summary of faster close activities

Finance teams are:

- ▶ Critically appraising the content of their accounts, removing unnecessary disclosures
- ▶ Closing the ledger earlier and encouraging greater discipline across the authority to comply with deadlines for accruals
- ▶ Preparing discrete sections of the accounts (e.g., narrative report and remuneration notes) and associated working papers earlier to facilitate early audit work
- ▶ Focusing on judgements and significant estimates earlier including engagement with auditors
- ▶ Reviewing the de-minimis level for accruals, including discussion with auditors
- ▶ Conducting a hard close for monthly reconciliations e.g., bank reconciliations, feeder systems, etc., with a zero-tolerance to reconciling items over a month old
- ▶ Undertaking weekly cut-off testing in April to ensure that the accounts are complete, retaining the evidence in case that item is selected for audit testing

Auditors are:

- ▶ Meeting regularly with finance staff, sharing details of the audit approach, agreeing a planned timetable of tasks, communicating changes and providing clarity on what is expected and when

- ▶ Bringing forward testing to reduce the amount needed to do in the summer. In particular, valuation of land and building and other high risk areas
- ▶ Increasing the use of analytics to interrogate ledger and payroll transaction data
- ▶ Using the online EY client portal to streamline communications with finance teams
- ▶ Attending workshops with finance teams on accounting issues and effective working papers
- ▶ Selecting items for sample testing earlier

Together finance teams and auditors are:

- ▶ Holding regular meetings throughout the year to share progress and discuss issues
- ▶ Planning respective activities to ensure sufficient capacity on both sides
- ▶ Revisiting audit issues from the prior year, agreeing how similar issues can be avoided
- ▶ Ensuring the client assistance schedule is appropriately tailored

We have produced a faster close briefing checklist that you can use to ensure that you are doing all you can, alongside working with us, to achieve the accelerated timetable. For more information please contact your local engagement lead.





Regulation news

EU General Data Protection Regulation: are you ready?

On 17 December 2015, after more than three years of negotiations and several draft versions of the General Data Protection Regulation (GDPR), an informal agreement was reached between the European Parliament and Council of the European Union. The GDPR is a significant change for organisations. It introduces more stringent and prescriptive data protection compliance challenges, backed by fines of up to 4% of global annual revenue. The regulation replaces Directive 95/46/EC, which has been the basis of European data protection law since it was introduced in 1995.

The Regulation has a significant impact on organisations in all sectors, bringing with it both positive and negative changes in terms of cost and effort.

Key changes proposed by the EU GDPR include:

- ▶ Regulators can impose fines of up to 4% of total annual worldwide turnover or €20,000,000
- ▶ Data Protection Officers (DPOs) – DPOs must be appointed if an organisation conducts large scale systematic monitoring or processes large amounts of sensitive personal data
- ▶ Accountability – organisations must prove they are accountable by establishing a culture of monitoring data processing procedures, minimising data retention and building safeguards, and documenting data processing procedures
- ▶ Organisations must undertake Privacy Impact Assessments when conducting risky or large scale processing of personal data

- ▶ Consent to process data must be freely given, explicit and individuals must be informed of their right to withdraw their consent
- ▶ Organisations must notify supervisory authorities of data breaches 'without undue delay' or within 72 hours, unless the breach is unlikely to be a risk to individuals
- ▶ Introduction of new rights – right to be forgotten, right to data portability and right to object to profiling
- ▶ Organisations should design data protection into the development of business processes and new systems and privacy setting should be set a high level by default
- ▶ Data processors become an officially regulated entity

Whilst organisations may welcome the harmonisation of laws across the 28 EU member states which will make the complex data protection landscape easier to navigate, the introductions of new rights for individuals are likely to increase the regulatory burden for organisations.

Organisations need to review their current data protection compliance programmes to determine next steps and decide on the level of investment they need to make before 2018 to address the changes.

Organisations need to act now to ensure that they are ready to comply with the new Regulation when it comes into force on 25 May 2018.



Key questions for the Audit Committee

Has your local Authority considered the changes to council tax flexibilities into the 2018-19 budget And the impact of changes to business rate retention into your Medium Term Financial Strategy?

Has your local authority been affected by the collapse of Carillion plc? How have contingency plans been implemented to maintain public services? What (if any) is the local authority's financial exposure to this event?

Has your local authority included in its budget any likely increases of employee wages above 1%?

Has your Authority considered how IFRS 15 might impact your revenue streams?

How has the local authority prepared for the accelerated accounts closedown timetable for 2017-18?

Has the Authority considered the implications of the new GDPR, and is the Authority confident that it comply with its requirements when it comes into force?

Find out more

EY ITEM Club Forecast

<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

2018-19 Local Government Finance Settlement

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019>

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669538/LGFS_consultation_2018-19.pdf

<https://www.local.gov.uk/parliament/briefings-and-responses/provisional-local-government-finance-settlement-201819-day>

<http://www.cipfa.org/about-cipfa/press-office/archived-press-releases/2017-press-releases/cipfa-responds-to-the-provisional-local-government-finance-settlement?crdm=0>

Carillion collapse

<http://www.publicfinance.co.uk/news/2018/01/public-sector-looks-ways-plug-gap-left-carillion>

<http://www.publicfinance.co.uk/news/2018/01/public-services-will-be-protected-after-carillion-collapse>

Public sector pay

<http://researchbriefings.files.parliament.uk/documents/CBP-8037/CBP-8037.pdf>

<http://www.publicfinance.co.uk/news/2017/12/local-employers-issue-2-pay-offer-each-next-two-years>

IFRS 15 – revenue from contracts with customers

[http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/\\$FILE/ey-applying-revenue-october-2017.pdf](http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/$FILE/ey-applying-revenue-october-2017.pdf)

EY – CIPFA Accounts Closedown Workshop 2017-18

For Faster Close Activities Checklist: please contact your local engagement lead

For a full list of locations and dates available search for 'Accounts Closedown Workshop' at <http://www.cipfa.org/training>





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FINANCE, AUDIT & RISK COMMITTEE 21 MARCH 2018
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*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 8
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TITLE OF REPORT: SHARED INTERNAL AUDIT SERVICES (SIAS) – PROGRESS AGAINST 2017-18 AUDIT PLAN

REPORT OF SIAS CLIENT AUDIT MANAGER

The above report is attached.

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North Herts District Council Audit Committee Progress Report 21 March 2018

Recommendations

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 2 March 2018,
- Note the proposed amendments to the 2017/18 Annual Audit Plan, and
- Note the implementation status of high priority recommendations.

Contents

- 1 Introduction and Background
 - 1.1 Purpose
 - 1.2 Background
- 2 Audit Plan Update
 - 2.1 Delivery of Audit Plan and Key Findings
 - 2.4 Medium Priority Recommendations
 - 2.5 High Priority Recommendations
 - 2.8 Proposed Amendments to the 2017/18 Annual Audit Plan
 - 2.11 Performance Management

Appendices

- A Progress against the 2017/18 Audit Plan
- B Implementation Status of High Priority Recommendations
- C 2017/18 Audit Plan Items – Start dates agreed with management

1. Introduction and Background

Purpose of Report

- 1.1 This report details:
- a) Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2017/18 as at 2 March 2018.
 - b) Implementation status of previously agreed high priority audit recommendations and request to agree removal of completed actions.
 - c) Proposed amendments to the 2017/18 Annual Audit report
 - d) An update on performance management information as at 2 March 2018.

Background

- 1.2 The 2017/18 Annual Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 22 March 2017.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the fourth report giving feedback on the delivery of the 2017/18 Internal Audit Plan.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

2. Audit Plan Update

Delivery of Audit Plan and Key Audit Findings

- 2.1 As at 2 March 2018, 83% of the 2017/18 Audit Plan days had been delivered.
- 2.2 The following 2017/18 final reports have been issued since 1 December 2017 (cut-off date for the SIAS Update Report for 18 December 2017 FAR Committee):

Audit Title	Date of Issue	Assurance Level	Number of Recommendations
Member Training	March 2018	N/A	N/A (consultancy review)
Cyber Security	March 2018	Moderate	1 High, 3 Medium and 2 Merits Attention

Council Tax	February 2018	Substantial	1 Merits Attention
NDR	February 2018	Full	None
Payroll	January 2018	Substantial	1 Medium, 2 Merits Attention
New Integra Implementation	January 2018	N/A	N/A (consultancy review with no actions)
Tree Management and Strategy	January 2018	Moderate	2 Medium, 4 Merits Attention
Taxi Licensing	January 2018	Substantial	2 Medium, 2 Merits Attention
Telephony System – Post Implementation Review	January 2018	Substantial	1 Merits Attention

- 2.3 Details on the status of all audits in this year's plan can be found in Appendix A.

Medium Priority Recommendations

- 2.4 The table below provides a summary of the medium priority recommendations made in the period:

Audit	Summary of medium priority recommendations
Cyber Security	• The Council's Information Asset Register is not sufficiently detailed and responsibilities of information asset owners have not been defined. • Members of staff are not provided with appropriate cyber security training and the Council has not undertaken a training needs analysis. • There is not a documented record of the Council's firewall rules or the reasons for which they have been put in place.
Payroll	• Compliance with Working Time Regulations
Tree Management	• Identification and record keeping of trees in Estates • Identification and record keeping of trees in Leisure
Taxi Licensing	• Vehicle licence plates and driver ID badges secure storage arrangements • Disposal of data no longer needed

High Priority Recommendations

- 2.5 Members will be aware that a Final Audit Report is issued when it has been agreed by management; this includes an agreement to implement

the recommendations that have been made. It is SIAS's responsibility to bring to Members' attention the implementation status of high priority recommendations; it is the responsibility of Officers to implement the recommendations by the agreed date.

2.6 We have made one high priority recommendation as a consequence of the work undertaken in the audits detailed in paragraph 2.2 above. This recommendation relates to the following:

- **Cyber Security Incident Management** – The Council does not have defined procedures in place for responding to cyber security incidents.

2.7 The standard template schedule attached at Appendix B shows the management response, target implementation date and the implementation status of the agreed high priority audit recommendation.

Proposed Amendments to the 2017/18 Annual Audit Plan

2.8 At the request of management, the following audits have been cancelled and the remaining time budgets returned to contingency:

- Outbound Mail – New System - this audit has been cancelled as the implementation of the new system is not progressing as fast as originally envisaged. However, this audit has been included as part of the 2018/19 draft annual audit plan.
- Joint Review 2 – as agreed by the SIAS Board.

2.9 As a result of the above, contingency in the 2017/18 Annual Audit Plan for the Council currently stands at 18 days.

2.10 At the request of management, the following two audits have been added to the audit plan, with the time being taken from contingency:

- Fees and Charging Benchmarking (5 days)
- Monitoring Officer Review (5 days)

Performance Management

Reporting of Audit Plan Delivery Progress

2.11 To help the Committee assess the current situation in terms of progress against the projects in the audit plan, we have provided an overall progress update at Appendix C. The table below shows that summary of performance based in the latest performance information reported at Appendix A.

Summary – 2 March 2018		
Status	No of Audits at this Stage	% of Total Audits (36)
Draft / Final	25	69%
Currently in Progress	11	31%
Start Date Agreed	0	0%
Yet to be planned	0	0%

Deferred	0
Cancelled	4

2.12 Annual performance indicators and associated targets were approved by the SIAS Board in March 2017.

2.13 As at 2 March 2018, actual performance for North Herts against the targets that can be monitored in year was as shown in the table below.

Performance Indicator	Annual Target	Profiled Target to 2 March 2018	Actual to 2 March 2018
1. Planned Days – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	85% (324.5 / 382 days)	83% (316.5 / 382 days)
2. Planned Projects – percentage of actual completed projects to draft report stage against planned completed projects	95%	78% (27 / 36 projects)	69% (25 / 36 projects)
3. Client Satisfaction with Conduct of the Audit – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100% (18 questionnaires sent and 12 returned)
4. Number of High Priority Audit Recommendations agreed	95%	95%	100%

2.14 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2017/18 Head of Assurance's Annual Report:

- **5. External Auditors' Satisfaction** – the Annual Audit Letter should formally record whether or not the External Auditors are able to rely upon the range and the quality of SIAS' work.
- **6. Annual Plan** – prepared in time to present to the March meeting of each Audit Committee. If there is no March meeting then the plan should be prepared for the first meeting of the financial year.
- **7. Head of Assurance's Annual Report** – presented at the Audit Committee's first meeting of the civic year.

APPENDIX A - PROGRESS AGAINST THE 2017/18 AUDIT PLAN AS AT 2 MARCH 2018

2017/18 SIAS Audit Plan

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Key Financial Systems								
General Ledger					10	Yes	6.5	In Fieldwork
Debtors					10	Yes	1	In Fieldwork
Creditors					10	Yes	1.5	In Fieldwork
Treasury Management					6	Yes	5	Quality Review
Council Tax	Substantial	0	0	1	12	Yes	12	Final Report Issued
NDR	Full	0	0	0	10	Yes	10	Final Report Issued
Benefits & Rent Allowances					10	Yes	9	Quality Review
Payroll	Substantial	0	1	2	10	Yes	10	Final Report Issued
New Integra system implementation - consultancy	Not assessed	0	0	0	10	Yes	10	Final Report Issued
Operational Audits								
Business Improvement Districts (BIDs)					10	Yes	9.5	Draft Report Issued
Office Accommodation Project	Substantial	0	2	2	14	Yes	14	Final Report Issued
HTH & Museum - operation	Moderate	0	4	2	14	Yes	14	Final Report Issued
Tree Strategy & Management	Moderate	0	2	4	12	Yes	12	Final Report Issued
Taxi Licensing	Substantial	0	2	2	12	Yes	12	Final Report Issued
Income Generation	Not assessed	0	0	0	15	Yes	15	Final Report Issued
Commercialisation / Council Company					12	Yes	2	In Fieldwork
Paperless Committee System					10	Yes	9.5	Draft Report Issued

APPENDIX A - PROGRESS AGAINST THE 2017/18 AUDIT PLAN AS AT 2 MARCH 2018

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Telephony System - post implementation review	Substantial	0	0	1	10	Yes	10	Final Report Issued
Outbound mail - new system					10	Yes		Audit Cancelled
Member Training					10	Yes	9.5	Draft Report Issued
Fees and Charging Benchmarking					5	Yes	3	In Fieldwork
Procurement / Contracts								
NHLC Refurbishment					12	Yes	3	In Fieldwork
Waste Contract - new arrangements progress					10	Yes	1	In Planning
Northgate Contracts					12	Yes	11.5	Draft Report Issued
Serious and Organised Crime Agency (SOCA) Fraud Checklist	Not assessed	0	0	0	10	Yes	10	Final Report Issued
Joint Reviews								
Joint Review 1					2.5	No		Allocated
Joint Review 2					2.5	No		Audit Cancelled
Shared Learning					5	Yes	5	Through Year
IT Audits								
Cyber-risks	Moderate	1	3	2	10	Yes	10	Final Report Issued
Asset Management System					0	N/A		Cancelled
Anti-Fraud and Governance								
Internal control issues identified by SAFS					5	N/A	5	As required

APPENDIX A - PROGRESS AGAINST THE 2017/18 AUDIT PLAN AS AT 2 MARCH 2018

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Contingency & Ad Hoc Activity								
Contingency & Ad Hoc Activity					18			
Election Support					0	N/A		Cancelled
Review of FAR	Not assessed	0	0	0	3	Yes	3	Final Report Issued
DFG Capital Grant certification	Not assessed	0	0	0	2	Yes	2	Complete
King George V Playing Fields	Not assessed	0	0	0	1	Yes	1	Final Report Issued
Monitoring Officer Review	Not assessed	0	0	0	5	Yes	5	Final Report Issued
Strategic Support								
Head of Internal Audit Opinion 2016/17					5	Yes	5	Complete
Audit Committee					12	Yes	12	Through Year
Client Meetings					10	Yes	9	Through Year
Liaison with External Audit					1	Yes	1	Through Year
Progress Monitoring					10	Yes	9	Through Year
SIAS Development					5	Yes	5	Through Year
2018/19 Audit Planning					10	Yes	10	Allocated
2016/17 Projects requiring completion					2	Yes	2	Complete
HTH & Museum Project					11	Yes	10.5	Draft Report Issued
Careline Operation	Substantial	0	3	1	12.5	Yes	12.5	Final Report Issued

APPENDIX A - PROGRESS AGAINST THE 2017/18 AUDIT PLAN AS AT 2 MARCH 2018

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
Appraisal Process	Full	0	0	0	7.5	Yes	7.5	Final Report Issued
Green Space Strategy					0.5	N/A	0.5	Cancelled
Use of Consultants	Substantial	0	0	3	5		5	Final Report Issued
Joint Review - Local Authority Trading					0.5	Yes		In Fieldwork
Joint Review - PREVENT	Not assessed	0	0	0	0.5		0.5	Final Report Issued
Corporate Project Management	Moderate	0	3	1				Final Report Issued
Contract Management	Substantial	0	1	2				Final Report Issued
Payroll	Substantial	0	3	1				Final Report Issued
NDR	Full	0	0	0				Final Report Issued
Total - North Herts D.C.		1	24	24	400		316.5	

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment March 2018	Status of Progress
1.	Cyber Security (March 2018)	We recommend that management define the Council's cyber security incident management procedure, which should include but not be limited to: • The procedures for confirming and validating cyber security incidents • The actions to be taken by members of staff in the event of a cyber attack occurring • The responsibilities of cyber security incident handlers • The actions to be taken to recover a service or services following a cyber attack	The current practices for addressing cyber security incidents will be documented and put into a defined procedure, which will address the requirements of this recommendation.	IT Technical Services Manager (Cyber Security)	31 May 2018	N/A – new recommendation	N/A	Implementation date not yet reached.

No.	Report Title / Date of Issue	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments (Last 12 months)	SIAS Comment March 2018	Status of Progress
Page 45		- The contact details for all relevant members of staff and any third parties involved - The arrangements for identifying lessons learned and reporting on cyber security incidents. The defined procedure should be approved and made available to all relevant members of staff.						

NHDC 2017/18 Audit Plan Start Months											
Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
SOCA Fraud Checklist Final Report Issued	Office Accommodation Project Final Report Issued	RPR Process (16/17) Final Report Issued	Telephony System Post implementation review Final Report Issued	DFG certification Completed	Commercialisation / Council company Moved to December	NHLC Refurbishment Moved to January	Payroll Final Report Issued	Benefits Moved to January	Outbound-mail system Cancelled	Waste Contract In Planning	Waste Contract Moved to February
Review of FAR Completed	Income Generation Final Report Issued	Cyber risks Moved to December	Northgate Contracts Draft Report Issued	Integra system implementation Final Report Issued		General Ledger Moved to February	NDR Final Report Issued	Treasury Management Quality Review	Asset Management system Cancelled	General Ledger In Fieldwork	Debtors In Fieldwork
Paperless committee system Moved to November	HTH & Museum operation Final Report Issued		Business Improvement Districts Draft Report Issued	Member Training Draft Report Issued		Debtors Moved to March	Council Tax Final Report Issued	King George V Playing field Final Report Issued	Joint Reviews (1)	Monitoring Officer Review Final Report Issued	Creditors In Fieldwork
Member Training Moved to August						Creditors Moved to March	Taxi Licensing Final Report Issued	Commercialisation / Council company In Fieldwork	NHLC Refurbishment In Fieldwork		
Joint Review – PREVENT (16/17) Final Report Issued							Tree Strategy & Management Final Report Issued	Cyber Risks Final Report Issued	Benefits Quality Review		
Joint Review – Local Authority Trading (16/17) In Fieldwork							Paperless committee system Draft Report Issued		Fees and Charging Benchmarking In Fieldwork		

Careline (16/17) Final Report Issued											
Hitchin Town Hall Project (16/17) Draft Report Issued											
Consultants (16/17) Final Report Issued											
Green Space (16/17) Cancelled											

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FINANCE, AUDIT & RISK COMMITTEE 21 MARCH 2018
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*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 9
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TITLE OF REPORT: SHARED INTERNAL AUDIT SERVICES (SIAS) – AUDIT PLAN 2018/19

REPORT OF SIAS CLIENT AUDIT MANAGER

The above report is attached.

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Finance, Audit and Risk
Committee
North Hertfordshire District Council

2018/19 Internal Audit Plan Report

21 March 2018

Recommendation

Members are recommended to approve the
proposed North Herts District Council
Internal Audit Plan for 2018/19

Contents

1. Introduction and Background

- 1.1 Purpose
- 1.2 Background

2. Audit Planning Process

- 2.1 Planning Principles
- 2.2 Approach to Planning
- 2.4 Planning Context
- 2.7 Internal Audit Plan 2018/19

3. Performance Management

- 3.1 Update Reporting
- 3.3 Performance Indicators

Appendices

- A Proposed North Herts District Council Audit Plan 2018/19
- B Proposed North Herts District Council Audit Plan 2018/19 – Reserve List
- C Audit Start Dates Agreed with Management

1. Introduction and Background

Purpose of Report

- 1.1 To provide Members with the proposed North Herts District Council (the Council) 2018/19 Internal Audit Plan.

Background

- 1.2 The Council's Internal Audit Plan sets out the programme of internal audit work for the year ahead, and forms part of the Council's wider assurance framework. It supports the requirement to produce an audit opinion on the overall internal control environment of the Council, as well as a judgement on the robustness of risk management and governance arrangements, contained in the Head of Internal Audit annual report.
- 1.3 The Shared Internal Audit Service's (SIAS) Audit Charter which was presented to the June 2017 meeting of this Committee shows how the Council and SIAS work together to provide a modern and effective internal audit service. This approach complies with the requirements of the United Kingdom Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013. An updated version of the SIAS Audit Charter will be brought to the June 2018 FAR Committee meeting for Member approval.
- 1.4 The PSIAS require that the audit plan incorporates or is linked to a strategic or high-level statement which:
- Outlines how the service will be developed in accordance with the internal audit charter
 - Details how the internal audit plan will be delivered
 - Evidences how the service links to organisational objectives and priorities
- 1.5 Section 2 of this report details how SIAS complies with this requirement.

2. Audit Planning Process

Planning Principles

- 2.1 SIAS audit planning is underpinned by the following principles:
- a) Focus of assurance effort on the Council's key issues, obligations, outcomes and objectives, critical business processes and projects and principal risks. This approach ensures coverage of both strategic and key operational issues.

- b) Maintenance of an up-to-date awareness of the impact of the external and internal environment on the Council's control arrangements.
- c) Use of a risk assessment methodology to determine priorities for audit coverage based, as far as possible, on management's view of risk.
- d) Dialogue and consultation with key stakeholders to ensure an appropriate balance of assurance needs. This approach includes recognition that in a resource-constrained environment, all needs cannot be met.
- e) Identification of responsibilities where services are delivered in partnership.
- f) In-built flexibility to ensure that new risks and issues are accommodated as they emerge.
- g) Capacity to deliver key commitments including governance work.
- h) Capacity to respond to management requests for assistance with special investigations, consultancy and other forms of advice.

Approach to Planning

- 2.2 In order to comply with the requirements of the PSIAS, SIAS applies a methodology at all its partners which contains the following elements:

Local and National Horizon Scanning

SIAS reviews, on an ongoing basis:

- key committee reports at each client and identifies emerging risks and issues
- the professional and national press for risks and issues emerging at national level

Consideration of risk management arrangements

SIAS assesses the risk maturity of the council and based on this assessment, determines the extent to which information contained within the council's risk register informs the identification of potential audit areas.

Confirmation of the council's objectives and priorities

SIAS confirms the current objectives and priorities of the Council. This information is used to confirm that identified auditable areas will provide

assurance on areas directly linked to the achievement of the council's objectives and priorities.

2.3 The approach to audit planning for 2018/19 has been characterised by:

- a) Detailed discussions with senior managers and other key officers within the Council to confirm auditable areas and elicit high level detail of the scope of audits. This process incorporates the following four steps to assist in the later prioritisation of projects:

Risk Assessment

Managers and SIAS agree the level of risk associated with an identified auditable area

Other sources of Assurance

Managers are asked whether assurance in the auditable area is obtained from other assurance providers e.g. External Audit or the Health and Safety Executive. This approach ensures that provision of assurance is not duplicated.

Significance

Managers assess how significant the auditable area is in terms of the achievement of corporate or service objectives and priorities.

Timings

Managers identify when an audit should be undertaken to add most value.

- b) Proposed plans are based on the information obtained from the planning meetings. Details of audits that have not been included in the proposed draft plan as a result of resource limitations are reported to senior management and the audit committee.
- c) The proposed 2018/19 plans for all SIAS partner councils are then scrutinised and cross-partner audits highlighted.
- d) The views of the Chair of the Audit Committee and the Council's external auditor are sought to confirm that their requirements are adequately addressed.

This approach ensures that our work gives assurance on what is important, focussing on those areas of highest risk, and supports the Council in achieving its objectives.

The Planning Context

2.4 The context within which local authorities provide their services remains challenging:

- Austere public finances are likely to continue into the next decade, meaning that previous expenditure levels are unsustainable and public leaders expect serious financial difficulty ahead.
 - Demand continues to rise, driven by complex needs, an ageing population and higher service expectations from citizens.
 - Technology, from use of mobile devices to the applications of predictive analytics, is now key to service delivery and offers opportunities along with significant risks.
 - Major, national programmes in areas like welfare reform and business rate reform, increased reliance on partnership working and the vote to leave the EU, mean the environment in which councils operate is uncertain.
- 2.5 The resultant efficiency and transformation programmes, that councils are developing and implementing, are profoundly altering each organisation's nature. Such developments are accompanied by potentially significant governance, risk management and internal control change.
- 2.6 The challenge of giving value in this context, means that Internal Audit needs to:
- Meet its core responsibilities, which are to provide appropriate assurance to Members and senior management on the effectiveness of governance, risk management and control arrangements in delivering the achievement of Council objectives
 - Identify and focus its effort on areas of significance and risk, assisting the organisation in managing change effectively, and ensuring that core controls remain effective
 - Give assurance which covers the control environment in relation to new developments, using audit approaches such as 'control risk self assessments' or 'continuous assurance' where appropriate
 - Retain flexibility in the audit plan and ensure it remains current and relevant as the financial year progresses

Internal Audit Plan 2018/19

- 2.7 The draft plan for 2018/19 is included at Appendix A and B and contains a high level proposed outline scope for each audit; Appendix C details the agreed start months. The number of days purchased in 2018/19 has reduced by 10%, which for North Herts District Council equates to a reduction from 400 days (in 2017/18) to 360 days (in 2018/19). A similar 10% reduction has been applied across all other

SIAS partner Councils and was agreed by the SIAS Board at its meeting in December 2017.

- 2.8 The table below shows the estimated allocation of the total annual number of purchased audit days for the year and the allocated budgets for 2017/18, as reported to FAR on 22 March 2017, for comparison and to demonstrate where the 10% audit days saving has been achieved.

	2018/19 Days	%	2017/18 Days	%
Key Financial Systems	84	23	90	23
Operational audits	129	36	125	31
Joint Reviews and Shared Learning	5	1	10	3
Procurement / Contracts	30	8	44	11
IT Audits	24	7	20	5
Corporate Governance	12	3	5	1
Strategic Support*	43	12	53	13
Contingency and other	13	4	13	3
Carry forward work from 16/17	20	6	40	10

Total allocated days	360	100%	400	100%
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* This covers supporting the Audit Committee, monitoring delivery of the audit plan, client liaison and planning for 2019/20.

- 2.9 A list of reserve audits that will be considered as a substitute for an agreed planned review that is cancelled in-year, is presented at Appendix B.
- 2.10 Any significant audit plan changes agreed between Management and SIAS will be brought before this committee for approval through the usual plan update reporting cycle.
- 2.11 Members will note the inclusion of a provision for the completion of projects that relate to 2017/18. The structure of Internal Audit's programme of work is such that full completion of every aspect of the work in an annual plan is not always possible; especially given the high dependence on client officers during a period where there are competing draws on their time e.g. year end closure procedures.
- 2.12 The nature of assurance work is such that enough activity must have been completed in the financial year, for the Head of Assurance to give an overall opinion on the Authority's internal control environment. In general, the tasks associated with the total completion of the plan, which includes the finalisation of all reports and negotiation of the appropriate level of agreed mitigations, is not something that adversely

affects delivery of the overall opinion. The impact of any outstanding work is monitored closely during the final quarter by SIAS in conjunction with the Section 151 Officer.

3. Performance Management

Update Reporting

- 3.1 SIAS is required to report its work to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit provision is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan. Progress against the agreed plan for 2018/19 and any proposed changes will be reported to this Committee four times in the 2018/19 civic year.
- 3.2 SIAS will report on the implementation of agreed high priority recommendations as part of the update reporting process.

Performance Indicators

- 3.3 Annual performance indicators were approved at the SIAS Board meeting on the 7 September 2011 and are reviewed annually by the Board. Details of the targets set for 2018/19 are shown in the table below. Actual performance against target will be included in the update reports to this Committee.

Performance Indicator	Performance Target
1. Planned Days percentage of actual billable days against planned chargeable days completed.	95%
2. Planned Projects percentage of actual completed projects to draft report stage against planned completed projects Note: To be based on the judgement of the SIAS management team and representing the best estimate as to a reasonable expectation of progress on the audit plan.	95%

3. Client Satisfaction percentage of client satisfaction questionnaires returned at 'satisfactory' level.	100%
4. Number of High Priority Audit Recommendations agreed	95%
5. External Auditor Satisfaction	External Auditors are able to rely upon the range and quality of SIAS' work Not applicable at NHDC as External Audit does not currently place reliance on the work of SIAS
6. Annual Plan	Presented to the March meeting of each Audit Committee. Or if there is no March meeting then presented to the first meeting of the new financial year
7. Head of Assurance's Annual Report	Presented to the first meeting of each Audit Committee in the new financial year.

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

KEY FINANCIAL SYSTEMS		
Audit	Proposed Outline Scope / Reason for Inclusion	Proposed Days
Key Financial Systems		
Integra 2 - General Ledger, Debtors and Creditors	To provide assurance that the Council's financial system is operating effectively following the upgrade to Integra 2 in Jan 2018 and that the benefits of the upgrade have been realised. The scope will include a review of the key controls relating to the main functions of the system, to be fully scoped as the audit commences, however may include: a) Systems access b) Setting up, deletion and monitoring of general ledger accounts in line with an established delegation of authority, c) Processing of journals and virements, ensuring that only authorised transactions with appropriate justification documented can be entered, d) Reconciliation of financial and non-financial systems where significant income is received, e) Regular review and clearance of suspense accounts, f) Customer account creation and amendment, g) Raising of debtor accounts, h) Credit notes and refunds, i) Accounting for income received, j) Write offs, k) Debtors control account reconciliations, l) Raising of supplier accounts, m) Ordering of goods, works and services, n) Receipt of goods, works and services, o) Payment of suppliers' invoices, p) Credit notes and refunds, and q) Creditors control account reconciliations.	25
Corporate Debt Management	To provide assurance that departments are following the corporate procedures and to ascertain the effectiveness of those procedures. The review will seek to gain a view on the direction of travel of corporate debt movement.	15

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

Treasury Management	A full audit is scheduled with areas of coverage potentially including: a) Treasury Management Practices, Policies and Procedures, b) Reporting Arrangements, c) Service Continuity and Training, d) Cash Flow Management, e) Counter-Party Risk, f) Transactions, g) On-line Banking and Investments, h) Capital and Interest Payments, i) Reconciliations, j) Performance Monitoring, and k) External Service Providers.	6
Council Tax	A full audit is scheduled with areas of coverage potentially including: a) Policies, Procedures and Legislation, b) Amendment to Council Tax records, c) Discounts and Exemptions, d) In-year Billing, e) Collection and Refunds, f) Recovery, Enforcement and Write Offs, g) Reconciliation between Council Tax system and General Ledger, h) Performance monitoring and Performance, and i) System access.	10
NDR	A full audit is scheduled with areas of coverage potentially including: a) Policies, procedures and regulatory compliance, b) Reconciliation between NDR system and Valuation lists, c) Multiplier setting, d) Voids and reliefs, e) In-year Billing, f) Collection and refunds, g) Recovery, enforcement and write offs, h) Reconciliation between NDR system and general ledger,	10

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

	i) Performance monitoring and management, and j) System access.	
Benefits & Rent Allowances	A full audit is scheduled with areas of coverage potentially including: a) Policies, procedures and set-up of standing data, b) Assessments and backdating, c) Payments, d) Recovery of Overpayments, e) Reconciliations, f) Performance Monitoring, and g) Security of Data.	10
Payroll	A full audit is scheduled with areas of coverage potentially including: a) starters, leavers, b) transfers and amendments, c) payroll payments (including scheduling and BACS), d) pension contribution rates, e) payroll deductions and third party payments, reconciliations, f) management exception reports, g) systems access / security, h) management of the external Payroll contract.	8
OPERATIONAL AUDITS		
Green Space Strategy Management	To provide assurance that the Council's Green Space Strategy has been effectively implemented and managed, with particular reference to progress made on community engagement and achievement of benefits.	10
S106	To provide assurance that S106 funds are suitably allocated to appropriate projects, sufficient monitoring of contractor contributions is undertaken to ensure monies are spent before they are at risk of claw back and that charges are accurately applied to developments.	10
Crematorium	To review the progress made to date in relation to the crematorium project. Scope to include a review of project management principles, achievement of key milestones and governance arrangements.	10
Museum Services	To provide assurance that the Council has retained effective records to support the retention and disposal of artefacts held by the Council. The review will also seek to provide the Council with advice regarding retention and disposal of artefacts.	10

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

Learning Management System	To provide assurance that the new eLearning tool (Growzone) has been successful embedded into the Council including usage, accessibility and record keeping and that the new system has achieved its initial objectives and benefits.	10
Overtime and Expenses	Following on from the issue raised in the 2017/18 Payroll audit, to provide assurance that the Council is effectively managing the overtime worked by officers, including compliance with the Working Time Regulations, approval and planning, effective budget management, analysis of overtime (including split between male and female officers) and risk assessment. In addition, to provide assurance that expense claims are appropriately authorised in line with Council policy and sufficient evidence is retained to support claims.	12
Apprenticeship Levy	To provide assurance that the Council is complying with the regulations and guidance relating to payment of the apprenticeship levy, and that this area is being exploited to its full potential by Council managers.	10
Homelessness Reduction Act	To provide assurance that the Council has adequately responded to the new Homelessness Reduction Act legislation and assess the impact the new legislation has on temporary accommodation demands and spending. In addition, this review will seek to provide assurance on the Council's approach to rough sleeping.	12
General Data Protection Regulations	A two part audit, initially to provide assurance that the Council is on track to comply with GDPR by 25 May 2018. The second part to provide assurance that the Council is progressing through the roadmap to full compliance as expected.	15
Disaster Recovery - Careline	To provide assurance that robust disaster recovery procedures are in place, have been subject to sufficient testing and are fit for purpose in view of Careline's relocation to the DCO.	6
Home Improvement Agency	A joint review with other partners of the HIA.	2
Original Documentation - Consultancy Review	To conduct a consultancy review relating to the requirement to view original documents. The review to include horizon scanning with other SIAS partners to establish alternative models of document collection.	6
Capital Programme	To provide assurance that the Council have effectively responded to the updated guidance issued in the CIPFA Code (2018) and the MHCLG Guidance (2018).	10
Health and Safety	To provide assurance that adequate health and safety arrangements are present following the move back to the DCO. This will specifically include a review of the new fire evacuation procedures.	6
PROCUREMENT / CONTRACTS		
Waste Contract - Client Services	To provide assurance that suitable contract management arrangements exist for the monitoring and management of the new Waste Contract, including (but not limited to) access to management information, reporting arrangements and contractor liaison.	10
Markets - Contract Management	To provide assurance that the management of the Churchgate markets has been sufficiently robust.	5

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

Outbound Mail Contract	To provide assurance that the new system has been successfully implemented, benefits have been realised and objectives achieved and adequate controls have been implemented in the new system.	10
Property Compliance Contract	In light of the new shared contract, provide assurance over the arrangements for information sharing and the arrangements the Council has in place to respond to reports of non-compliance.	5
JOINT REVIEWS		
Joint Reviews and Shared Learning	Joint review topics to be agreed by the SIAS Board and production of SIAS Quarterly Shared Learning papers.	5
IT AUDITS		
Software Licence Management	To provide assurance that the Council have a complete inventory of software including licences held, the licence count meets the business need and represents value for money and software contract payments are sufficiently monitored.	12
PSN Accreditation	To provide assurance that the Council has maintained sufficient evidence and embedded appropriate systems to demonstrate compliance with the requirements for continuing PSN accreditation.	12
CORPORATE GOVERNANCE		
Corporate Governance	To provide assurance that the Council's governance structures are sufficient and effective. Scope to include delegated decision making and senior management delegations following SMT restructure. Review to include horizon scanning / benchmarking of the Council's delegation levels and types of decisions delegated to officers against similar Local Authorities.	12
CONTINGENCY & AD HOC ACTIVITY		
Contingency	To provide for adequate response to risks or issues emerging in 2018/19.	5
Election Support	As required.	2
Review of FAR	To confirm that NHDC complies with the requirement in the CIPFA Audit Committee 'Practical Guidance for Local Authorities and Police' that an audit committee reviews its own remit and effectiveness.	3
DFG Capital Grant certification	To undertake sufficient audit work to enable the Head of Audit to certify the Disabled Facilities Capital Grant form,	2

APPENDIX A – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19

	as required by the Department of Communities and Local Government.	
King George V Playing Fields	To produce the Independent Examiner's Report for the trust.	1
STRATEGIC SUPPORT & CONTINGENCY		
Head of Internal Audit Opinion 2016/17	To prepare and agree the Head of Internal Audit Opinion for 2017/18	3
Audit Committee	To provide service linked with the preparation, agreement and presentation of Audit Committee reports.	10
Client Liaison	Meetings with the Council's Audit Champion, S151 Officer and other key officers and attendance at corporate groups.	8
External Audit Liaison	Meetings with the Council's External Auditor, as required.	1
Plan Delivery Monitoring	Audit Plan monitoring and reporting.	10
SIAS Development	Included to reflect the Council's contribution to developing the partnership.	5
2019/20 Audit Planning	Provision of services to prepare, agree and report the 2019/20 Annual Audit Plan.	6
17/18 Projects requiring completion	Completion of outstanding work from 2017/18.	20
TOTAL AUDIT PLAN DAYS		360

APPENDIX B – PROPOSED NORTH HERTS DISTRICT COUNCIL AUDIT PLAN 2018/19 – RESERVE LIST

RESERVE LIST		
Systems Access - Passwords	To provide assurance that adequate controls exist to allow appropriate access to Council systems, including the reasonableness of password expectations for Council systems.	
Office Accommodation - Post Project Review	To complete a post project of the office accommodation project – including realisation of benefits / objectives, budget management and governance.	
Medium Term Financial Planning	To provide assurance that appropriate governance systems exist in relation to budget recovery and efficiency plans. In addition to review the accuracy and relevance of financial information to support monitoring and finally to provide assurance that recovery / efficiency plans are on track in relation to programmed activities / targets.	
Openness Regulations	To conduct a benchmarking exercise to assess the Council's approach to compliance with the Openness Regulations in relation to other Local Authorities. Review designed to identify best practices.	

APPENDIX C – AUDIT START DATES AGREED WITH MANAGEMENT

April	May	June	July	August	September
General Data Protection Regulations	Museum Service	Original Documentation – Consultancy Review	S106	Green Space Strategy Management	Crematorium
Careline Disaster Recovery	Overtime and Expenses		Software Licence Management		Apprenticeship Levy
Review of FAR	Health and Safety – Fire Evacuation Arrangements				Homelessness Reduction Act
					Property Compliance Contract
					DFG Grant Certification
October	November	December	January	February	March
Integra 2 – General Ledger, Debtors and Creditors	Council Tax	Treasury Management	Capital Programme	Learning Management System	
Corporate Debt Management	NDR	Payroll	Waste Contract – Client Services	Markets – Contract Management	
PSN Accreditation	Benefits	Outbound Mail Contract	King George V Playing Fields	Corporate Governance	

Home Improvement Agency – this has been provisionally planned for quarter 2/3, with a start month yet to be confirmed.

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FINANCE, AUDIT & RISK COMMITTEE 21 MARCH 2018
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*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 10
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TITLE OF REPORT: SHARED ANTI-FRAUD SERVICE (SAFS) – PROPOSED ANTI-FRAUD PLAN 2018/2019

REPORT OF SHARED ANTI-FRAUD SERVICE MANAGER

The above report is attached.

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North Hertfordshire District Council

Anti-Fraud Plan 2018/2019

Recommendations

Members are recommended to:

1. Note the report
2. Review and approve the SAFS/NHDC Anti-Fraud Plan 2018/2019.
3. Read and review the LGA Councillors Workbook on Fraud and Bribery Prevention 2017

Contents

- 1 Introduction and Background**
 - 1.1 Purpose
 - 1.2 Background

- 2 Plans & Reports 2018/2019**
 - 2.1 Anti-Fraud and Corruption Strategy
 - 2.2 Reporting on 2017/2018 Anti-Fraud Action Plan
 - 2.11 Proposed 2018/2019 Anti-Fraud Plan
 - 2.13 Transparency Code Data 2017/2018

Appendices.

- A. LGA Councillors Workbook- Fraud and Bribery Prevention
- B. NHDC Anti-Fraud Action Plan 2017/2018

1 Introduction and Background

Purpose of Report

1.1 To provide Members with information on:

- Progress on the SAFS/NHDC Anti-Fraud Action Plan for 2017/2018
- A proposed SAFS/NHDC Anti-Fraud Plan 2018/2019
- Transparency Code Data

Background

1.2 Several reports issued by Government and public sector organisations have highlighted fraud as a significant risk for local government. These reports are used by SAFS to ensure that the Council is aware of its own fraud risks and finds ways to mitigate or manage these effectively, wherever possible.

These reports include:

- *Fighting Fraud and Corruption Locally 2016–2019 Strategy* produced by CIPFA in March 2016 and supported by CLG. The new strategy estimates annual fraud losses in local government at around £2.1bn (this report is based on 2013 data).
- *UK Annual Fraud Indicator 2017* published in partnership by Crowe Clark Whitehill, Portsmouth University and Experian which estimates the risk of fraud losses for local government in excess of £8bn per annum.
- CIPFAs *Fraud and Corruption Tracker 2017* indicates that identified fraud had increased since 2016 but that the capacity within the sectors counter fraud capacity had reduced, and would continue to do so, placing local government at even greater risk of fraud.
- The Central Governments *United Kingdom Anti-Corruption Strategy 2017-2022* includes the vision and priorities for dealing with and reducing the risk of corruption within the UK private, public & charity sectors and when working with organisations /companies/government agencies abroad.

1.3 The Cabinet Office, Department for Communities and Local Government, NAO, and CIPFA have also issued guidance, advice, and best practice directives to support local councils in the fight to reduce the risk of fraud and prevent loss to the public purse. This advice includes the need for Councils to be vigilant in recognising their fraud risks and to invest resources in counter fraud activities that deliver savings.

1.4 The Council is a founding member of the Hertfordshire Shared Anti-Fraud Service (SAFS). Members have received detailed reports about the creation of SAFS and its progress and how this service works closely with the Shared Internal Audit Service.

SAFS works across the whole Council dealing with all aspects of fraud from deterrence & prevention to investigation & prosecution.

- 1.5 It is essential that to support SAFS the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, and plans to deal with the investigation and prosecution of fraud.
- 1.6 In 2017 the LGA published its Councillors Workbook on Bribery and Fraud Prevention. A copy of the Workbook can be found at **Appendix A** and Members are invited to read and review this document.

2. Plans and Reports 2018/2019

Anti-Fraud and Corruption Strategy

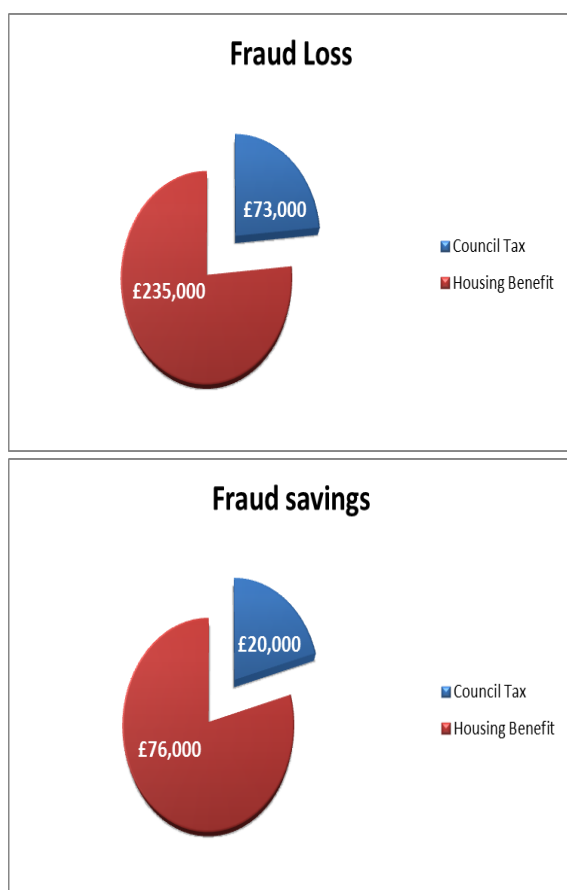
- 2.1 The Council has in place an Anti-Fraud and Corruption Strategy. This document lays out the Council's position and includes advice to Members, senior officers, and staff about how to deal with identified fraud and corruption. This document was reviewed in 2017 and it complies with best practice guidance from CIPFA.

Anti-Fraud Action Plan 2017/2019

- 2.2 The Council's Anti-Fraud Action Plan for 2017/2018, approved by Members in March 2017, covered all areas recommended by CIPFA to ensure that the Council acknowledges the risk of fraud, its responsibility to combat these risks, and takes appropriate action to prevent/deter/pursue fraud. Progress against the plan was provided to Members in September 2017 and a final report for 2017/2018 will be provided to this Committee in September 2018.
- 2.3 In the first three quarters of the current financial year 149 cases were reported to SAFS for investigation (86 from staff, 50 from public, 8 from data-matching and 5 from other sources), including allegations of fraud affecting areas such as tax liability, housing applications, blue badge use, housing benefit and business rates.



- 2.4 Of 75 cases where action has been taken, and investigations closed to-date, financial savings of £96k and fraud losses of £308k have been identified, a further £54k in social security benefit fraud has been identified through joint working with DWP. In 7 of the most serious cases sanctions, including fines totalling £1,800, and prosecutions have been applied, several cases are currently awaiting court hearings. As noted above, a full report will be provided to this committee later in 2018.
- 2.5 For NHDC 'Financial Loss' is where a fraud has occurred resulting in a debt to the Council that can be recovered through civil/statutory routes. 'Financial Savings' reflects fraud that has been prevented or an ongoing 'Loss' that has been stopped. In the case of Council Tax Discounts a fraud may be identified in December 2017 that started in April 2017, in this example the loss is any underpaid council tax between April and December, and the saving would be the future revenue from December 2017 to the end of the billing year (March 2018).



- 2.6 In the table above for housing benefit 'Loss,' which can recovered in full through civil and legislative routes, in addition the Council will receive 40% subsidy from the DWP for identifying and seeking to recover these losses. Todate this additional subsidy will be £94k (40% of £235k) for 2017/2018 for NHDC.
- 2.7 Housing Needs training has been delivered which engaged NHDC Housing Team and raised the awareness of fraud risks. This has resulted in the increased/improved checks

by Housing needs officers that has assisted with the day to day decision making regarding housing register applications. Positive work has continued with Housing Needs and meetings with Head of Service and Housing Needs managers there is an agreed process for decision making at all levels when dealing with suspected housing fraud applications.

- 2.8 Successful prosecution followed a refusal by DWP to investigate a suspected HB fraud. SAFS took on full investigation into CTB/CTR/HB/SPD and identified a £16k of overpaid HB/CTR/SPD between 2012 & 2015. A Guilty plea at court resulted in a 16 weeks custodial sentence which was suspended for 18 months, with 150 hours unpaid work and 25 days Rehabilitation Activity Requirement. In addition to the subject was ordered to pay prosecution costs of £1,300 to NHDC.
- 2.9 Joint working with the DWP is going very well and 9 cases are at various stages of preparation for court hearings to commence.
- 2.10 SAFS have planned ID document training with Customer Service staff to assist in identifying fraudulent use of documents where these are presented by customers. The dates for the training to be delivered are to be finalised but will take place before the end of March 2018.

Anti-Fraud Plan 2018/2019

- 2.11 The plan for 2018/2019 uses similar format to that used in previous years taking into account changes in guidance from CIPFA and/or changes in fraud risks for the Council. See **Appendix B** for a copy of the plan.
- 2.12 Adherence to the proposed plan for 2018/2019 will ensure compliance with the Council's own Strategy, and the best practice guidance issued by the CLG, NAO, LGA, and CIPFA.

Transparency Code Data 2017/2018

- 2.13 SAFS will also provide data to meet the requirements of Transparency Code for publication by the Council in May 2018 on its activity on Counter Fraud for the whole of 2017/2018.

**North Herts District Council
Anti-Fraud Plan 2018/2019**

in partnership with

The Shared Anti-Fraud Service



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Introduction

This plan supports the Council's Anti-Fraud and Corruption Strategy by ensuring that the Council, working in partnership with the Shared Anti-Fraud Service (SAFS), has in place effective resources and controls to prevent and deter fraud as well as investigate those matters that do arise.

The Council's Policy states that it expects Members and staff to adhere to the seven Nolan Principles:

Selflessness Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.

Integrity Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

Objectivity In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands it.

Honesty Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership Holders of public office should promote and support these principles by leadership and example.

This plan includes objectives and key performance indicators that support the Council's Strategy and meet the best practice guidance/directives from central government department such as Department for Communities and Local Government and other bodies such as National Audit Office and the Chartered Institute for Public Finance and Accountancy.

National Context

In 2013 the National Fraud Authority stated that the scale of fraud against local government was large, but difficult to quantify with precision.

In its 2015 publication ***Code of practice on managing the risk of fraud and corruption*** CIPFA highlighted the five principles for public bodies to embed effective standards for countering fraud and corruption in their organisations. These principles support good governance and demonstrate effective financial stewardship and strong public financial management

The five key principles of the code are to:

- Acknowledge the responsibility of the governing body for countering fraud and corruption
- Identify the fraud and corruption risks
- Develop an appropriate counter fraud and corruption strategy
- Provide resources to implement the strategy
- Take action in response to fraud and corruption.

The CIPFA ***Local Government Counter Fraud and Corruption Strategy (2016-2019)*** included a summary of reported fraud losses across councils in England totalling £307m per annum but that hidden and unreported fraud risks could exceed £2bn each year. The strategic response for local government to respond to the threat of fraud threats provides three key principles '**Acknowledge/Prevent/Pursue**'. The strategy was supported by Department for Communities and Local Government, the Local Government Association and Fighting Fraud Locally Board.

In addition, local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes (6C's) identified in the CIPFA Strategy:

- Culture - creating a culture in which beating fraud and corruption is part of daily business,
- Capability - ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks,
- Capacity - deploying the right level of resources to deal with the level of fraud risk,
- Competence - having the right skills and standards,
- Communication - raising awareness, deterring fraudsters, sharing information, celebrating successes
- Collaboration - working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information

The Annual Fraud Indicator (AFI) 2017 (published in partnership by Crowe Clark Whitehill, Portsmouth University and Experian) attempts to identify the cost of fraud to the UK economy. The AFI estimated fraud losses for local government as follows.

- Total loss across local government - £7.8bn
- Tenancy Fraud- £1.8bn
- Procurement Fraud - £4.4bn
- Payroll Fraud - £1bn
- Other - £.6bn

The AFI does not include housing benefit fraud or council tax fraud as a loss to local government but estimates the loss of these combined at around £1.1bn.

What is clear is that every pound lost to fraud from the public purse is a pound lost from essential front line services. The Councils Anti-Fraud Plan 2017/2018 is founded on the principles of 'Acknowledge/ Prevent/ Pursue' and the 6 C's to ensure the Council is adequately protected from fraud risk or that where fraud does occur there are plans to manage and mitigate any losses.

SAFS Resources 2018/2019

Budget

In December 2017 the SAFS Board agreed that the annual fee for District Councils, who did not hold housing stock, would be fixed to £80,000 +VAT for 2018/2019. The Board also received assurance from financial modelling that the service would be sustainable, in its current form, for 5 years with an increase in fees, to be determined in 2018, each year from 2019 onwards.

Fees for North Herts District Council in 2018/2019 remain at £80,000 + VAT.

Staffing

The full complement of SAFS now stands at 16 FTE's; 1 Manager, 2 Assistant Managers, 9 Investigators, 3 Intelligence Officers and 1 Data-Analyst. SAFS also have access to an Accredited Financial Investigator (AFI), specialist IT/financial and forensic services through third party providers and criminal litigation services, through the Shared Legal Service with the County Council.

North Herts District Council will have access to 1 FTE Investigator, the intelligence functions of the Service, all data-matching services being offered through the local data-warehouse and can call on SAFS management for liaison meetings, management meetings and two Audit Committees reports per annum.

SAFS will also provide fraud awareness training for Council staff and be available during normal office hours to provide general advice or guidance to officers on emerging fraud threats or those matters requiring an immediate response.

SAFS will provide the Council with the following fraud prevention and investigation services as part of the contracted anti-fraud function.

1. Access to a managed fraud hotline and webpage for public reporting.
2. Process and document for SAFS Partner staff to report suspected fraud to SAFS.
3. Training in: Fraud Awareness (management/staff/members), Fraud Prevention, Identity Fraud and Prevention.
4. Assistance in the design of Council policies processes and documents to deter/prevent fraud.
5. SAFS will design shared/common anti-fraud strategies and policies or templates to be adopted by the Council.
6. SAFS will provide a proactive data-matching solution (data-warehouse) to assist in the early identification of fraud and fraud prevention
 - The data-warehouse will be funded by SAFS
 - The data-warehouse will be secure and accessible only by nominated SAFS Staff. Data will be collected and loaded in a secure manner.
 - SAFS will design and maintain a data-sharing protocol for SAFS Partners to review and agree annually. The protocol will clearly outline security provisions and include a Privacy Impact Assessment.
 - SAFS will work with nominated officers in the SAFS Partners to access data-sets to load into the data-warehouse and determine the frequency of these.
 - SAFS will work with Partners to determine the most appropriate data-matching for each of them and the frequency of such data-matching.
7. All SAFS Staff will be qualified, trained and/or accredited (minimum Accredited Counter Fraud Specialist) to undertake their duties lawfully.
8. All SAFS investigations will comply with legislation including DPA, GDPR, PACE, CPIA, HRA, RIPA* and all relevant policies of the Council.
9. Reactive fraud investigations.
 - All reported fraud will be actioned by SAFS within 5 days, on average.
 - The Council will be informed of all reported fraud affecting its services.
 - SAFS will allocate an officer to each investigation.
 - SAFS officers will liaise with nominated officers at the Council to access data/systems/accommodation required to undertake their investigations.
 - SAFS officers will provide updates on cases and a report with summary of facts and supporting evidence on conclusion of the investigation for the Council to review and make any decisions.
 - Where a decision indicates an offence SAFS Officers will draft a report for the nominated officers of the Council to make a decision on any further sanctions/prosecutions.
10. Where sanctions, penalties or prosecutions are sought SAFS will work with the Council to determine the appropriate disposal based on the Code for Crown Prosecutors and the Council's published policies. SAFS will provide reports through the SAFS Board on progress and to the Council's Audit Committee.
11. SAFS will provide Alerts to the Council, of suspected fraud trends or reports/guidance from government and public organisations that are relevant to fraud.

**Data Protection Act, General Data Protection Regulation, Police and Criminal Evidence Act, Criminal Procedures and Investigations Act, Human Rights Act, Regulation of Investigatory Powers Act.*

NHDC / SAFS Action Plan 2018/2019

CIPFA Principles	SAFS Objectives	Goals & 6Cs	Activities	Responsible Officer		
ACKNOWLEDGE	Ensure ongoing effectiveness and resilience of anti-fraud arrangements	Fraud is acknowledged as a Risk for the Council CULTURE	The Council has in place Anti-Fraud and Corruption Strategy	Head of Finance / Head of Legal		
			The Council has a Fraud Response Plan and this Action Plan	Head of Finance / Head of Legal		
			Audit Committee and Senior Managers ensure compliance with CIPFA best practice in their counter fraud arrangements	Head of Finance		
			The Council conducts Fraud Risk Assessments	SAFS Mgr/ Risk Mgr		
	Improve the reach into areas of 'corporate' fraud across all Partners	The Council has a robust communication policy demonstrating its commitment to prevent fraud COMMUNICATION	The Council has in place Policies to deal with Money Laundering/ Bribery/ Whistleblowing/ Cyber-Crime	Head of Legal		
			The Councils Communication Team will publicise prosecutions and anti-fraud campaigns conducted by it and SAFS	Head of Comms		
			SAFS will provide access to fraud reporting tools (web/phone/email)	SAFS Mgr		
			The Council and SAFS will make available fraud awareness or specific anti-fraud training across all Council services	SAFS Mgr & Head of HR		
PREVENT	Create a data hub for Hertfordshire	Co-ordination of effort, sharing of best practice, data, fraud alerts and new threats. COLLABORATION	Provide fraud alerts to appropriate officers/staff/services.	SAFS Mgr		
			SAFS will provide an E-Learning Packages for staff/members	SAFS Mgr & Head of HR		
			Develop services which can be marketed to external bodies	Have the highest levels of professional standards COMPETENCE	Develop existing SAFS Data Hub	SAFS Mgr
					Review data sharing agreements/protocol between internal and external partners	Head of Legal / SAFS Mgr
	Work to develop 'Flexible NFI' & 18/19 NFI Matches	SAFS Mgr				
	Work with DWP to deliver CTRS/HB/Housing Fraud 2018 roll-out	SAFS Mgr/ Head of Finance				
	PURSUE	Deliver financial benefits in terms of cost savings or increased revenue	Ensuring the Counter-Fraud Measures are appropriate to the range of fraud risk. CAPABILITY	Work with other organisations, including private sector, to improve data-sharing	SAFS Mgr	
				All SAFS staff will be fully trained and accredited	SAFS Mgr	
All investigations will be undertaken in compliance with relevant legislation and Council Policies				SAFS Mgr		
SAFS will work with bodies such as CLG/LGC/CIPFA to develop local anti-fraud strategies at a national level				SAFS Mgr		
Create a recognised centre of excellence that is able to disseminate alerts and share best practice nationally		Develop the right level of resources to deal with the level of fraud risk CAPACITY	SAFS will work with Council Services to make best use of 3rd party Providers such as NAFN, PNLD etc	SAFS Mgr		
			SAFS will provide reports to Board and SAFS Champions quarterly on anti-fraud activity at the Council	SAFS Mgr		
			SAFS will record and report on all fraud referred, investigated and identified	SAFS Mgr		
			SAFS will review fraud trends and new threats and report on these to Council Managers	SAFS Mgr		
		SAFS and the Council Legal and Debt teams will seek to 'prosecute' offenders and recover losses	SAFS Mgr /Head of Legal/ Head of Finance			
		The Council will review its ROI from SAFS Membership	Head of Finance			
		SAFS will assist the Council in providing its Transparency Code (Fraud) Data annually	SAFS Mgr			
		Reports to Senior Mgt and Audit Committee on SAFS and Council activity	SAFS Mgr / Head of Finance			
		Inclusion of Fraud Risks and the Councils actions to manage/mitigate/reduce this in its Annual Governance Statement	Head of Finance			
		Head of Finance, refers to Head of Finance, Performance and Asset Management				

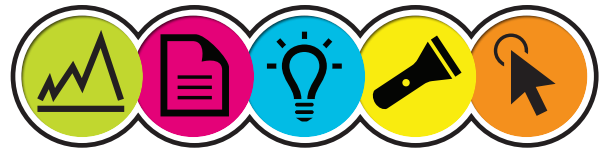
Head of Finance, refers to Head of Finance, Performance and Asset Management

SAFS KPIs 2018/2019

KPI	Measure	2018/2019 Target	2017/2018 Targets	Performance to Feb 2018	SAFS Partnership Aims
1	Provide an Investigation Service	1 FTE on call at NHDC (Supported by SAFS Intel/ Management). Membership of NAFN Membership of CIPFA Counter Fraud Centre Access to NAFN for relevant Staff Fraud training events for staff/Members*	1 FTE on call at NHDC (supported by SAFS Intelligence/ Management). Membership of NAFN Membership of CIPFA Counter Fraud Centre Fraud training events for staff	Complete	Ensure ongoing effectiveness and resilience of anti-fraud. Deliver a return on investment for the Councils financial contribution to SAFS.
2	Identified Value of Fraud prevented/detected	£150k Fraud loss (recoverable debt) & Fraud Savings (from prevented loss or new revenue) combined	£100k Fraud loss (recoverable debt) & Fraud Savings (from prevented loss or new revenue) combined	£404k + Costs/ Penalties/ Council Tax Review	Deliver financial benefits in terms of cost savings or increased revenue
3	Allegations of fraud Received. From all sources.	100 Fraud referrals from all sources to SAFS	100 Fraud referrals from all sources to SAFS	149	Improve the reach into the areas of non-benefit and corporate fraud
4	Success rates for cases investigated. This will ensure that quality investigations are undertaken.	50% of all cases investigated to result in a positive outcome	50% of all cases investigated to result in a positive outcome		Create a recognised centre of excellence able to disseminate alerts and share best practice nationally.
5	Conduct Data- Matching using the local data-hub, and other data- matching/mining.	Data-Hub for local data matching. County wide Council Tax Review Framework.	Data-Hub for local data matching. County wide Council Tax Review Framework.	NHDC conducted its own NFI review but has used the Council Tax Review Framework	Create a data hub for Hertfordshire.

*Costs will include salary and direct on-costs for CFO (1 FTE), ACFM (1/3 FTE), Intel Officer (1/3 FTE) = £64k. Costs for NAFN/CIPFA/CMS/ Data Hub = £12k.

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A councillor's workbook on bribery and fraud prevention



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Foreword

This workbook has been designed as a learning aid for elected members. It makes no judgement about whether you have been a member for some time, or whether you have been elected more recently. If you fall into the former category the workbook should serve as a useful reminder of some of the key skills, approaches and tactics involved in neighbourhood and community engagement – it may even challenge you to reconsider how you have approached aspects of the role to date.

Those members who are new to local government will recognise that they have much to learn. The workbook will help you to get up to speed on the main areas of the neighbourhood and community engagement role that require focus and attention. In effect, it should provide you with some pointers on how to develop a style and approach that you are comfortable with, and that enables you to be most effective in your day to day duties.

The workbook offers few firm rules for ward members as it is recognised that each individual must decide how best to approach the role. This will be influenced by the other commitments in your life, the type of ward you represent and the methods and approaches that suit you best. There is no presumption about 'typical wards' or 'typical members' and the workbook should serve more as a direction marker rather than a road map.

In practical terms, the document will take between two to three hours to work through. You do not need to complete it all in one session and may prefer to work through the material at your own pace. The key requirement is to think about your own approach to neighbourhood and community engagement – how the material relates to your local situation, the people you serve and the council you represent.

In working through the material contained in this workbook you will encounter a number of features designed to help you think about the issues surrounding the development of neighbourhood and community engagement. These features are represented by the symbols shown below:



Guidance – this is used to indicate guidance, research, quotations, explanations and definitions that you may find helpful.



Challenges – these are questions or queries raised in the text which ask you to reflect on your role or approach – in essence, they are designed to be thought-provokers.



Case studies – these are 'pen pictures' of approaches used by councils elsewhere.



Hints and tips – a selection of good practices that you may find useful.



Useful links – these are signposts to sources of further information that may help with principles, processes, methods and approaches.

Bribery and fraud prevention

Every organisation whether large or small is at risk from fraud and councils are no exception to this.

All councils have a duty to protect the public purse and a major part of this is by limiting exposure to fraud and corruption and reducing risk through effective prevention and detection. Authorities, even the smallest, are constantly under threat from fraudsters whether that be single person discount fraud, reducing council revenue or a cyber-attack causing a major data loss, reputational damage and fines from the information commissioner.

Fraud is estimated to cost UK councils around £2.1 billion per year which is money that cannot be used to support local communities.

As an elected member you have a range of statutory and moral obligations to protect the assets of your authority and you also need to equip yourself with the knowledge to deal with enquiries and questions from residents.

Section 1 Fraud from a local authority perspective

The scale of fraud

The challenge presented by fraud to councils is significant. As stated in 'The Local Government Counter Fraud and Corruption Strategy 2016-2019' (usually known as Fighting Fraud and Corruption Locally), it is estimated that fraud costs councils around £2.1 billion each year and some reports produced by other organisations suggest that this figure could actually be higher.

The CIPFA (Chartered Institute of Public Finance and Accountancy) counter fraud and corruption tracker, known as CFaCT is an annual survey of fraud activity in councils (and some other public bodies) and measures detection rates across local government and across different types of fraud. Based on returns in 2016 CIPFA estimates that over £325 million worth of fraud was detected in the UK public sector in 2015/16, with the biggest fraud areas being council tax and housing tenancy fraud. In previous years housing benefit fraud will have figured highly on this list.

Whatever the stats and reports say, is clear is that every pound lost by councils to fraud is a pound that cannot be spent on supporting the community.



Useful links

The full CFaCT report for the UK can be found here:

www.cipfa.org/services/counter-fraud-centre/fraud-and-corruption-tracker

If your authority took part in the survey they will have received a free comparison report showing their counter fraud activity compared to other authorities in the same tier. See if you can obtain a copy from your fraud manager or head of internal audit.

If your council didn't take part in the survey perhaps you can encourage them to do so next year?

The Fighting Fraud and Corruption Locally strategy and companion documents can be found at:

www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally

The impact of fraud

The impact of fraud should never be underestimated. Fraud leaves the council with less to spend on services for residents and costs taxpayer's money. Fraud against a local council is not a victimless crime.

There's not only the lost/stolen money to consider but also the:

- loss of working time, with officers putting things right and liaising with police and lawyers
- cost of the investigation and any subsequent court costs
- increased insurance premiums.

There are also non-financial implications that are often forgotten. These will also, indirectly, have a financial impact, which is often difficult to qualify, such as:

- reduced or poor service for residents
- political impacts, eg government interventions, by-elections
- reputational damage for individuals or the council as a whole
- poor staff morale leading to poor performance and/or more fraud.

What is fraud?

‘Fraud is any intentional act or omission designed to deceive others, resulting in the victim suffering a loss and/or the perpetrator achieving a gain.’

‘Managing the business risk of fraud’

published by the Institute of Internal Auditors, et al

There are a number of definitions of fraud that are commonly used, however the majority of crimes committed that are considered to be fraud will be prosecuted under the Fraud Act 2006. Many activities that are carried out by councils are covered by specific legislation, for example, offences such as making false statements in order to obtain a council house or unlawful sub-letting of a council tenancy.

Fraud Act 2006

This legislation was introduced to make the law of fraud simpler and more readily understandable providing a clear understanding of the ways in which fraud can be committed. The Act gives us the provision for the general offence of fraud which is made up of three key sections:

- S2. Fraud by false representation
- S3. Fraud by failing to disclose information
- S4. Fraud by abuse of position.



Challenges

Think about the services that your council provides and identify some fraudulent activity that might occur within each of the categories.

Answers:

S2. Fraud by false representation

S3. Fraud by failing to disclose information

S4. Fraud by abuse of position

If you would like to know more about the Fraud Act 2006 the key provisions of the Act can be found here www.legislation.gov.uk/ukpga/2006/35/contents

There are many other 'activities' that may fall under the overarching definition of fraud and are indeed types of fraud, the most common of these include:

- corruption
- bribery
- theft
- money laundering.

To give a clearer understanding of these terms, they can be defined as:

- **Corruption:** The misuse of a person's position to commit offences, which can include theft, extortion and a number of other crimes, including the soliciting of bribes. The defining characteristic of corruption is that it involves collusion between two or more individuals and is often associated with those holding public office.
- **Bribery:** The offering, giving, receiving, or soliciting of any item of value, or an advantage to another person, to induce that person to improperly perform a relevant function or activity, or to reward them for improper performance.
- **Theft:** Dishonestly appropriating property belonging to another with the intention of permanently depriving that person of it.
- **Money laundering:** The process by which criminals attempt to disguise the original ownership and control of the proceeds of criminal activity by making such proceeds appear to have derived from a legitimate source.



Useful links

You can find out more about bribery and corruption by completing the CIPFA's Bribery and Corruption e-learning module, in partnership with the LGA. To access the site for the first time, please email: elarning@local.gov.uk
<http://lms.learningnexus.co.uk/LGA>

Areas of fraud risk for councils

The estimated annual loss to fraud in councils is £2.1 billion. According to the CIPFA Fraud and Corruption Tracker 2016, the areas posing the highest fraud risk were:

1. Council tax fraud

Fraud can occur when an individual intentionally gives incorrect or misleading information in order to pay less or no council tax. Examples include someone stating that they live alone when another adult also lives there or someone claiming to be a student when they aren't.

2. Social housing/tenancy fraud

The unlawful misuse of social housing. This can be broken down into two main areas; social housing fraud and Right to Buy fraud. The former includes offences such as unlawful subletting, false applications, non-residency and unauthorised tenancy succession and the latter includes fraudulent applications under the right to buy/acquire schemes.

3. Procurement fraud

This occurs in connection within the local authority supply chain. It can happen at any point throughout the procurement cycle but is particularly prevalent in the contract letting phase. It can also include tendering issues, split contracts and double invoicing.

4. Adult social care and direct payments

Includes overstatement of needs through false declarations, multiple claims across authorities, collusion with care agencies and posthumous continuation of claims.

Other high risk fraud areas for councils

Housing benefit fraud

Councils are no longer responsible for the investigation of this fraud but as administrators of this benefit there is a responsibility to actively prevent attempts of fraud and to notify the Department of Work and Pensions (DWP) of any suspected fraudulent activity including false applications and failing to declare changes in circumstances.

Business rates (NNDR) fraud

Offences include providing false details to obtain exemptions and reliefs and unlisted properties.

Blue Badge misuse

There are 2.39 million Blue Badges in issue in the UK and it is estimated that 20 per cent of these are subject to fraudulent misuse such as use of the badge when the holder is not present and the alteration of a badge.

Recruitment fraud

Includes false CVs, job histories, qualifications, references or referees.

Insurance fraud

False claims made against a council or their insurers such as 'trips and slips'.

Grant fraud

There are many different types of local authority grants paid out to individuals, businesses and charities. Fraud types include work not carried out, funds diverted, ineligibility not declared.

Cyber fraud

Such as phishing, allows a range of fraud types resulting in diversion of funds and the creation of false applications for services and payments.

Pension fraud

Occurs when the pension provider is not notified of changes in circumstances and payments continue to be cashed fraudulently. Examples include failure to notify the pension provider about the death of the recipient and failure to declare returning to work after retirement.

No recourse to public funds

Fraudulent claim of eligibility, usually by the provision of false papers or by overstaying.



Case study Dudley Metropolitan Borough Council's Code of Practice

Dudley Metropolitan Borough Council has codes of conduct for employees and councillors which set out the high standards expected of them. These are also intended to relay certain messages to all suppliers as there is a growing expectation that all service providers in local government should adhere to the same principles of being open and transparent when dealing with colleagues, residents and partners.

In developing its 'Suppliers' Code of Practice' Dudley aimed to reinforce good working practices and to stamp out fraud, bribery, corruption and unacceptable business practices.

Staff who buy in goods and services on behalf of the authority and all suppliers are required to work to the guidelines in this code of practice.

All active suppliers have received an email announcing the launch of the code and shown where the code is available on the council's website. The code includes useful contacts if people want to report problems to the council and reinforces the availability of a fraud hotline operated by Audit Services.

Audit Services also intends to approach key suppliers to obtain feedback and ask for written assurance that they comply with the code.

Dudley's leaflet 'Beating fraud is everyone's business', which sets out guidelines for employees, managers and councillors, is available on the CIPFA website.

www.cipfa.org/services/counter-fraud-centre

Reproduced from Fighting Fraud and Corruption Locally 2016-19

Section 2 Council and councillor responsibilities in relation to fraud prevention and detection

Well governed organisations have a range of policies, procedures and frameworks to support effective risk management, transparency, accountability, financial control and effective decision making, many of which relate directly or indirectly to fraud prevention. Applying these is not only the responsibility of the audit committee or cabinet.

As an elected member, you have an essential role to play in protecting the public purse, in particular within your council. You are responsible for ensuring that your authority adequately manages its risks and that local residents receive value for money. -You have a duty of trust to residents called the 'fiduciary duty' and a major part of this is ensuring that your council adequately controls its finances to reduce losses to fraud and corruption.

In addition to your fiduciary duty, as a councillor you are a public servant and are expected to uphold certain standards of conduct and behaviour in your public life. The Committee on Standards in Public Life calls these standards the 'Seven Principles of Public Life' (also known as the Nolan Principles).



Useful links

If you would like to read more the full report on the Seven Principles of Public Life can be found here:

www.gov.uk/government/uploads/system/uploads/attachment_data/file/543819/CSPL_Annual_Report_2015-2015.pdf

The seven principles of public life

The Seven Principles of Public Life apply to anyone who works as a public office-holder. This includes all those who are elected or appointed to public office, nationally and locally, and all people appointed to work in the civil service, local government, the police, courts and probation services, non-departmental public bodies (NDPBs), and in the health, education, social and care services. All public office-holders are both servants of the public and stewards of public resources. The principles also have application to all those in other sectors delivering public services.

1. Selflessness

Holders of public office should act solely in terms of the public interest.

2. Integrity

Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

3. Objectivity

Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

4. Accountability

Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

5. Openness

Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

6. Honesty

Holders of public office should be truthful.

7. Leadership

Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

As a councillor you are expected to adhere to a code of conduct. A similar code of conduct will also apply to officers of your council. However, the biggest threat is from external sources, whether that is residents who may lie or exaggerate their circumstances to defraud or steal from the council or large scale, organised fraudsters, attacking public sector organisations as they perceive them to be a 'soft target'.

As a councillor your role in protecting the public purse may take a number of guises depending on your role and the responsibilities of your council but they may include:

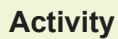
1. reporting suspicious activity in your locality to your audit or fraud team eg subletting or council tax evasion
2. scrutinising risk registers and challenging if the fraud risks appear to not be well managed
3. oversight and scrutiny of budgets, especially in high risk areas
4. ensuring you declare any interests if you sit on committees such as planning
5. monitoring performance of your audit or fraud team with regard to detection and prevention of fraud
6. supporting the principles of good governance, and supporting an anti-fraud culture across the council, including whistleblowing
7. supporting the publicising of successful prosecutions by your council to act as a deterrent and perhaps providing quotes to the press if appropriate.

Something to think about...

'Most public officials have probably never been offered a bribe and would feel pretty confident that they could spot the offer. If they don't necessarily think of themselves as totally incorruptible, they often think they can avoid getting entangled in situations where their conduct may be called into question. However, thinking you don't need help or guidance in knowing what is legal or illegal, or even what is right or wrong, in every circumstance is a risk – a risk that could and should be avoided by getting the most of what help and guidance is available.'

Prof Alan Doig

Visiting Professor, Newcastle Business School,
Northumbria University



1. A resident comes to speak with you at your surgery and tells you that their neighbour is subletting their council property.
2. There has been a lot of publicity on TV about cyber fraud. You ask a question of your council's chief information officer (or equivalent) about what the council is doing to protect itself. The answer is "it's not a problem for us, so we don't really need to worry too much about it". You are not really comfortable that your chief information officer is taking the risk seriously.
3. You hear a rumour that a member of the planning committee has failed to declare that he has shares in a supermarket that want to develop in your area.
4. Your council is criticised by the external auditors for not doing enough to promote an anti-fraud and corruption culture. You are given the responsibility of leading the campaign. What might you do?

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Section 3 The fraud response

Councillors are not responsible for investigating fraud. If you become aware of fraud, or suspect it, you should immediately report it to the responsible officer in accordance with your authority's local procedures and policies. Do not be tempted to begin an investigation yourself, even if this appears to be helpful.

However, you should be aware of the arrangements your council has in place for responding to fraud and this is particularly important if you are given special responsibilities in this area, such as being a member of the audit and/or governance committee.



Activity

What are your council's procedures for councillors to report fraud or suspicions of fraud? If you do not know, check with your member support officer or your authority's monitoring officer.

A robust and strategic approach is required to effectively tackle fraud perpetrated against local government organisations.

In order to tackle fraud risk, councils should have in place a strategic response based upon three basic principles as detailed below:

Acknowledge	Prevent and Detect	Pursue
Acknowledging and understanding fraud risks	Preventing and detecting more fraud	Being stronger in punishing fraud/ recovering losses
↓	↓	↓
- Assessing and understanding fraud risks - Committing support and resource to tackling fraud - Maintaining a robust anti-fraud response	- Making better use of information and technology - Enhancing fraud controls and processes - Developing a more effective anti-fraud culture	- Prioritising fraud recovery and the use of civil sanctions - Developing capability and capacity to punish fraudsters - Collaborating with law enforcement

Fighting Fraud and Corruption Locally 2016-19

Acknowledge

This is key and will underpin any anti-fraud strategy. If an organisation does not accept that they are at risk from fraud, then they will never be able to develop an effective anti-fraud response and ironically will leave themselves open to a higher likelihood of attack from fraudsters.

As a starting point a council should:

- make a proper and thorough assessment of its fraud and corruption risks that are specifically considered as part of the overall risk management process
- develop and implement an action plan in place to deal with the identified risks
- report regularly to its senior board eg audit committee, and its members

Prevent and detect

The old adage that 'prevention is better than cure' is never more appropriate than in dealing with fraud. The reason for many processes that appear annoying and bureaucratic is to introduce steps that make it harder for people to carry out fraud.

Active prevention and fraud risk management is the most cost-effective way to fight fraud, make savings and reduce risk.

Effective prevention should include:

- A robust programme of anti-fraud and corruption awareness training for councillors, senior managers and all staff.
- Standards of conduct and policies, that are well communicated, including:
 - officer and councillor codes of conduct
 - risk management policy
 - financial regulations and procurement policy
 - anti-fraud, corruption, money laundering and bribery policies
 - whistleblowing policy
 - register of interests
 - gifts and hospitality policy.

Use of technology and data sharing to enable thorough due diligence with regards to recruitment, applications for services, the Right to Buy scheme and procurement processes.

A well-publicised anti-fraud and corruption strategy and policy, and the publicising of successful investigations into cases of fraud and corruption, to build and develop a strong anti-fraud culture. Such a culture, when promoted from 'the top down', will encourage staff and service users to actively participate in fraud prevention through awareness and encouraging them to report any suspicions.

Effective and well operated controls within systems that are regularly audited to provide assurance that they are working.

Good networking by officers and sharing intelligence between authorities so that new types of fraud are picked up early.

Unfortunately, no matter how good prevention measures and controls are, there will still be occasions when your council suffers fraud losses. In these circumstances it is vital that there is the ability to call upon competent, professionally accredited counter fraud specialists trained to a professional standard to investigate the suspected fraud.

Councils need to ensure that evidence is lawfully gathered and professionally presented, irrespective of whether the anticipated outcome is a disciplinary hearing, civil action or criminal proceeding.

Pursue

Successful investigations will result in the identification of the fraudster and usually a financial figure representing the loss to the council. The authority will then have a number of options open to them regarding any course of action they may wish to take. This is a crucial part of the enforcement response and is needed to punish the fraudsters and act as a deterrent to others. Options available to councils include prosecution, cautions, fines and disciplinary action.

The recovery of any financial loss is also one of the most effective ways to deter offenders. It demonstrates that if caught, they will have to repay their 'ill-gotten gains'. It is important, therefore that there is a culture of rigorous pursuit of losses and that this is publicised.

Investigative approaches

Councils need to regularly review their approach to fraud investigation and adapt when necessary.

Some councils have dedicated corporate anti-fraud teams to deal with all types of fraud and corruption. Others rely on audit staff to conduct investigations and some bring in outside experts when the need arises. Some councils have merged their internal audit and fraud teams to reduce costs. None of these is necessarily better or worse; it depends upon the circumstances of the authority. However, fraud investigation is a specialist job so it is important that councils have access to such trained and experienced staff.



Case study Recovery of fraud losses

A council employee was illegally paid to provide confidential contract information.

The employees' responsibilities included awarding council contracts for ICT equipment. The employee introduced two new suppliers to the tender list, subsequently advising them of tender submissions by competing companies.

This enabled the two companies concerned to underbid competitive rivals to secure the contracts.

The fraud was identified as a result of information from an anonymous informant.

The employee was dismissed and subsequently found guilty under the Fraud Act and sentenced to two years' imprisonment.

The council successfully obtained a confiscation order under the Proceeds of Crime Act for £75,000 which was the amount the employee had illegally been paid.

Source: Audit Commission (2014)



Activity

What kind of anti-fraud and corruption approach does your council have? Ask your monitoring officer or head of audit/risk management. Do you think it is the right approach?

Irrespective of how any council decides to tackle its fraud and corruption risk, there are always two types of investigation that councils may be involved in; proactive and reactive.

Proactive investigations

These are intelligence led, making use of information from profiling or data-matching exercises.

A common example of this type of investigation would be where the authority was looking to identify people defrauding the council tax single person discount (SPD) scheme.

A household with only one adult is entitled to a 25 per cent discount on their council tax. Checking council tax records against the electoral role can identify cases where a person claims to be living alone is actually living with another adult. This type of data matching is legal and very effective in finding errors or frauds.

National Fraud Initiative (NFI)

The National Fraud Initiative (NFI), coordinated by the Cabinet Office matches electronic data within and between public and private sector bodies to help prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

Participation in the NFI is mandatory for councils who are required to submit data to the National Fraud Initiative on a regular basis.

Reactive investigations

These involve the search for and the gathering of evidence following an allegation or fraud referral, or the discovery of a set of circumstances which amount to an offence. In these cases, the offence is usually already being committed.

An example would be where a member of the public contacts a council to inform them that one of their council tenants is unlawfully sub-letting their council property.



Case study
London Borough of Harrow and
Luton Borough Council (NFI
2012/13 exercise)

A payroll-to-payroll match identified an employee who was working full-time in a middle management position, in addition to a part-time night care worker role dealing with vulnerable adults. During the investigation it was established that some weeks she worked in excess of 70 hours, potentially placing vulnerable adults at risk.

There was a suspicion that she had been able to work both shifts on a weekly basis by sleeping whilst at work and the information shared between councils showed that she regularly breached the Working Time Regulations.

After investigation, she was found guilty and dismissed for gross misconduct by one authority and subsequently disciplined by the other for breaching the Working Time Regulations, but later resigned from the role.

This case study comes from the official Cabinet Office NFI pages and is one of many case studies to be found there. They make interesting reading. You may very well find one from your council there. Take a look.

www.gov.uk/government/publications/national-fraud-initiative-case-studies/nfi-public-sector-case-studies

In these cases a professionally qualified investigator, will carry out an investigation that could have some or all of the following components:

- evidence gathering
- interviewing witnesses and taking statements
- interviewing the alleged perpetrator
- preparing the case for court
- giving evidence at court.

The challenges faced by councils in dealing with fraud and corruption

There are a number of challenges facing councils and their ability to effectively tackle fraud and corruption and to manage the risk it poses.

Public sector budget reductions

The impact of budget reductions has a three-fold effect:

- less resources to maintain administrative procedures that prevent fraud
- potentially reduced resources for investigating fraud
- the risk of greater fraud activity by professional criminals or opportunists who identify local authorities as more vulnerable.

These challenges have led to innovative thinking on ways of approaching the fraud and corruption risks such as joint working with other authorities or other public bodies and data sharing (such as the London Counter Fraud Hub). The best and most forward thinking councils use budget constraints as the impetus to drive forward the robust recovery of losses and other criminal assets which can and do lead to significant financial rewards.

Some councils who employ successful financial investigators generate income by charging other organisations such as housing associations for investigative services.



Case study
Example of joint working

The Metropolitan Police's Serious and Organised Crime Command has successfully collaborated with financial investigators from several London borough councils. There are currently nine Metropolitan Police Criminal Finance Teams set up as hubs – four in the north, four in the south and one central team – that are instrumental in training and mentoring several council investigators working together to tackle serious and organised acquisitive crime. The focus of this relationship is to recover assets and ensure that criminals do not benefit from criminal activities.

How innovative has your council been?

Is there scope for more?

Maintaining an anti-fraud culture

Councils need to develop and embed a culture with clear values and standards in which beating fraud and corruption is part of the daily business. The 'tone from the top' is crucial in this respect and councilors and senior leaders should be seen to 'walk the walk' in terms of their ethics, values and behaviours. The CIPFA Counter Fraud Centre has developed its 'top 10 tips' (see activity below) to support organisations in developing and maintaining an effective anti-fraud culture.



Activity

Review the Top 10 Tips, on the following page, and consider (find out if you don't already know) how good or bad your council is at each of these. Give a score from 1 – 5.

1. Set the tone at the top

Creating an anti-fraud culture is part of good governance and, led by a council's councillors and corporate directors, should start with a clear commitment to tackling fraud, corruption and other similarly delinquent behaviours. Ideally, zero tolerance to fraudsters (as opposed to fraud per se) should form the centre-piece of your organisation's anti-fraud strategy reinforcing expected standards in public service as set out in the 'Seven Nolan Principles of Public Life'. Having professionally qualified counter fraud staff in place can help to achieve this, as they have the credibility, standing and expertise to raise the profile of the anti-fraud agenda internally.

Score: 1...2...3...4...5

2. Know and prioritise your fraud risks

Knowing what the fraud and corruption risks are in an authority determines the type of framework you need to put in place and how your staff work within it. For example, if your risks include procurement fraud, those responsible for procuring contracts and services need to recognise fraud, bribery and corruption indicators when they see them. Professionally qualified counter fraud staff can assist with this process as they can assess risk and train operational staff in appropriate action. **Score: 1...2...3...4...5**

3. Scan the horizon

Fraud is constantly changing and fraudulent schemes often target frontline staff who are an organisation's first line of defence. What might seem a low fraud risk today might turn into a high one in the future. It is therefore vital that your organisation is up-to-date on the latest threats and risks and how to tackle them. Professionally qualified counter fraud staff can ensure that staff know who to come to if they suspect something amiss. As part of their continued professional development, counter fraud staff will also be 'plugged into' various anti-fraud networks which are vital sources of new information and threat alerts. **Score: 1...2...3...4...5**

4. Build fraud awareness

Creating an anti-fraud culture and beating fraud should be everyone's business within a council, from the dedicated counter fraud specialists through to the procurement team, HR, facilities staff and beyond. A qualified counter fraud practitioner will be fully trained in how to help mobilise the entire organisation in the fight against fraud. Whether using e-learning, staff briefings, training, posters or internal alerts – or a combination of all these – they will be best placed to define and execute awareness programmes. **Score: 1...2...3...4...5**

5. Ensure policies and procedures are in order

Professionally qualified counter fraud staff should be adept at finding the fraud gaps in existing organisational policies and procedures and determining what is required to plug those gaps in a cost-effective manner. For example, a general anti-fraud policy should include: guidelines on what to do when suspicions of fraud arise; a fraud response plan; processes for creating and implementing gifts and hospitality registers, declarations of interest registers and so on. An accessible and well-articulated whistleblowing policy should also be part of any effective anti-fraud culture. **Score: 1...2...3...4...5**

6. Create a dedicated anti-fraud team

Build capacity by creating a counter fraud team comprising of professionally qualified who are operationally independent from other teams. This will ensure their objectivity and impartiality. The team should be provided with the necessary resources required for their function, which would include an element of contingency or 'flex' to cater for unforeseen surges in work, such as large and complex investigations. With the necessary safeguards in place, the team should also have access to the information, data systems and senior personnel they need to effectively perform its function. **Score: 1...2...3...4...5**

7. Take action

Recovering money lost to fraud so it can be spent on key services is obviously vital. Professionally qualified counter fraud staff will be fully trained in conducting effective investigations and pursuing cases through the legal system, including the preparation of cases for prosecution. They will have the ability to give evidence in a court of law and take steps to recover lost funds. **Score: 1...2...3...4...5**

8. Measure success

Today's counter fraud specialists not only understand how to detect, prevent and recover fraud losses; they are also trained to measure and report on the effectiveness of the preventive measures they put in place. This forms a key part of an organisation's anti-fraud culture as it highlights to senior management the successes of counter fraud work. **Score: 1...2...3...4...5**

9. Publicise your success

Sharing the outcome of a successful investigation or how an anti-fraud measure has worked is a positive way to advertise the message that fraud doesn't pay. Professionally qualified counter fraud practitioners understand this and will want to publicise their successes both internally and externally, which should be encouraged. As well as being a deterrent, this can also lead to an increase in fraud referrals which is a good indicator that your anti-fraud culture is working. **Score: 1...2...3...4...5**

10. Never take your eye off the ball

Fraud is an ever-evolving threat and as the risk doesn't stand still, nor should your organisation's strategy to combat it. Professionally qualified counter fraud staff are trained to implement and manage prevention programmes to monitor the measurement and control strategies in place and make any necessary adjustments. They will also be able to recognise new threats and risks and the need for refresher training whenever this may arise. **Score: 1...2...3...4...5**

Total Score: Do you think this is good enough?

Abiding by the rules

In dealing with fraud, councils need to abide by the rules in order to ensure that frauds they detect and investigate can be pursued to the most appropriate conclusion. The rules protect the rights of individuals to privacy and the right to a fair trial. Although there are frequent stories in the press about councils 'snooping' on people, the rules are in fact very strict.

For example:

Regulation of Investigatory Powers Act (RIPA) 2000

This was brought in to regulate the powers of public bodies who carry out surveillance and investigation and also to cover the interception of communications. Councils have access to some of these powers for the purpose of prevention and detection of a crime.

Requesting information

Council investigators have certain 'authorised officers' powers to request information about individuals. For any other investigations, they are restricted to powers under Section 29 (3) of the Data Protection Act (DPA) 1998 which allow organisations to give such information to council investigators, assuming it is for the prevention and/or detection of a crime, but it does not compel them to do so. Consequently, some organisations choose not to give the requested information to a council.

The data matching approach described earlier is also regulated under the Data Protection Act.

More sophisticated frauds

The landscape of fraud and corruption is ever-changing, especially with the use of technology and the internet. Fraudsters never rest on their laurels and are always looking for new ways to defraud. This means councils are constantly exposed to different threats and managing this risk can be extremely difficult so it's extremely important that the investigators keep abreast of emerging risks and trends and share this across the council, but in particular with key teams such as payments.

The advent of 'cyber crime', whether or not it involves fraud, is probably one of the biggest challenges facing public bodies today.

Publicising success

While it may be embarrassing for any organisation, especially a local council, to admit that it has been the victim of fraud, experts would say that publicising successful investigations, where possible, is much the best policy. When a case ends up in court it will in any case become public. Proactive publicity shows residents and taxpayers that you are taking active steps to protect their interests and it may deter future fraudsters. Press and media teams can help to make sure the message is seen in a positive light.

Section 4 Fraud risk management

Note: You should complete this section if you have special responsibility for audit, risk or governance. If not, you can move on to section 6.

Risk management is essential for good governance within any organisation and effective fraud risk management is a vital part of that.

If you have a special responsibility as a councillor for audit, risk or governance, you will need to ensure that your council has appropriate arrangements in place to manage the risk of fraud.

All councils have faced and are still dealing with increased pressure on their budgets meaning that the requirement to identify fraud and reduce risk is perhaps higher now than it's ever been.

The CIPFA code of practice on the management of fraud risk sets out the expected standard for public bodies in the management of fraud risk.

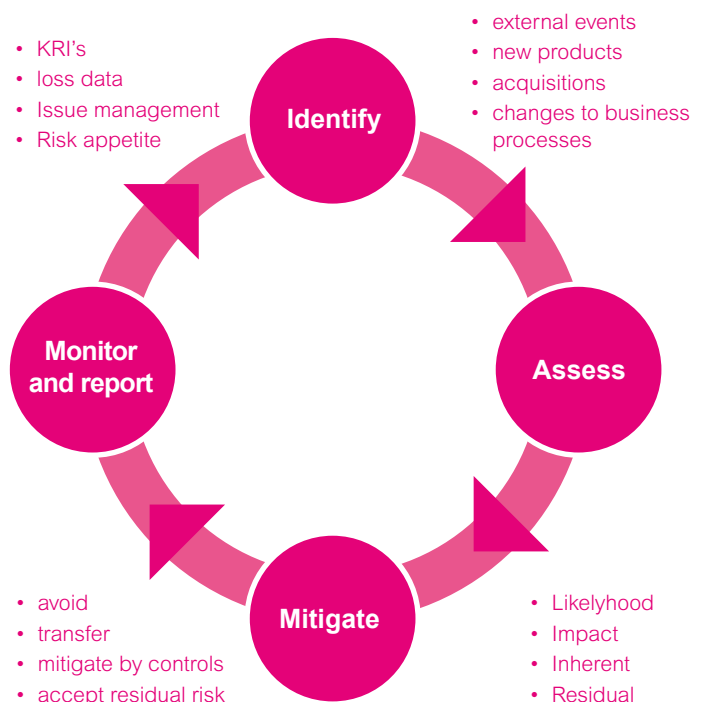
Implementing an effective fraud risk management framework, such as the CIPFA code of practice, will enable authorities to employ controls that help to prevent fraud from occurring in the first place, identify and detect fraud as soon as it occurs and enable a practical and efficient response to those fraud incidents. Fraud risks need to continually reviewed and managed, in the same way that other risks are managed within a council. The identification, assessment, mitigation and monitoring of risk (including fraud risks) is called the risk management lifecycle. The process works as such:



Hints and tips Code of practice principles

Leaders of public services organisations have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management. The five key principles of the code are to:

- acknowledge the responsibility of the governing body for countering fraud and corruption
- identify the fraud and corruption risks
- develop an appropriate counter fraud and corruption strategy
- provide resources to implement the strategy
- take action in response to fraud and corruption.



To help ensure that the fraud risk management is effective, it's important that the roles and responsibilities of all employees, members and those who act on behalf of the council are understood by all. The list below is not exhaustive but the main roles can be summarised as follows:

Councillors

- ✓ Have and maintain an understanding of fraud risks
- ✓ Understand the key principles of risk management
- ✓ Consider fraud risk in relation to the decision making process

Directors

- ✓ Support the council's fraud risk management strategy
- ✓ Set the appropriate tone with regards to the council's anti-fraud and corruption approach
- ✓ Ensure that there is a coordinated and consistent approach to the identification and management of fraud risk

Senior managers/service heads

- Ensure that fraud risks are appropriately managed and implement effective review and monitoring arrangements
- Manage risk in their service areas in accordance with the fraud risk management strategy

Internal audit/corporate fraud team

- ✓ Consider the council's fraud risk assessment when developing the annual audit plan
- ✓ Audit the internal fraud control processes across the authority
- ✓ Coordinate and/or conduct fraud and corruption investigations
- ✓ Assess the effectiveness of fraud prevention and detection processes
- ✓ Provide assurance to councillors and senior management of the effectiveness of fraud risk management and controls

All staff

- ✓ Have a basic understanding of fraud risks and be aware of indicators
- ✓ Manage fraud risk in the course of their daily duties
- ✓ Read, understand and have access to fraud related policies and procedures
- ✓ Contribute towards the development of fraud control processes
- ✓ Report suspicions of fraud and corruption
- ✓ Cooperate with investigations

The development and implementation of a robust fraud risk management program will reduce the opportunities for fraudsters to exploit. This, coupled with encouraging employees to actively participate in the fight against fraud will contribute significantly to the creation of a strong anti-fraud culture; helping to change the attitude towards fraud so that it is not tolerated and therefore reducing the risk of fraud happening in the first place.

Fraud risk assessment

The basis of an effective fraud risk management program begins with a Fraud Risk Assessment (FRA).

Councils are likely to face a wide variety of fraud and corruption risks and so a FRA will help the council to understand and identify the risks that are specific to the organisation as a whole as well as those that relate to individual service areas. It will also highlight gaps or weaknesses in fraud controls allowing the council to implement a plan to ensure the best use of resources in order to tackle those risks.

When conducting a FRA the questions that should be considered are:

- How could a fraudster exploit weaknesses in the current system controls?
- How might those controls be over-ridden or by-passed?
- How could the fraudster conceal their activities?

Bearing the above in mind, an effective FRA should generally consist of three main elements:

- **Identification of the fraud risk**

This will involve the gathering of information to highlight the fraud risks that could affect the council.

- **Assess the likelihood and impact of the fraud risk**

This assessment is based on historical information, and discussions/interviews with heads of services and other relevant staff.

- **Develop a response to those that present the highest risk**

Decide how best to respond to the fraud risks.

Section 5 Assurance that fraud arrangements are effective

Note: You should complete this section if you have special responsibility for audit, risk or governance. If not, you can move on to section 6.

If you have special responsibility for audit, risk or governance you will wish to assure yourself that your council's fraud arrangements are effective.



Assurance is:

'Data or information provided to management/boards/committees to give comfort that risks are being properly managed and controls are adequate and working effectively'

Institute of Internal Auditors

Best practice dictates that governance, risk management and strong financial controls (called the system of internal control) are part of the daily and regular business of an organisation. The system of internal control is a key component in the prevention and detection of fraud and corruption.

What is internal control?

Any action taken by management, the board and other parties to manage risk. In other words, an action taken to ensure that risks do not materialise or get worse. Some examples might be:

- Expenses claims must be authorised by management before payment. This process of checking the claim for accuracy prevents fraud or error and so controls the risk of overpayment.
- The housing department carry out regular tenancy audits of their properties. This process of checking acts as a deterrent to subletting and a detection if it does happen and so controls the risk of subletting.

- The health and safety team carry out regular inspections of public buildings. These inspections highlight any existing problems for repair or any potential problems for signposting. In this way, the risk of slips, trips and other accidents are controlled.

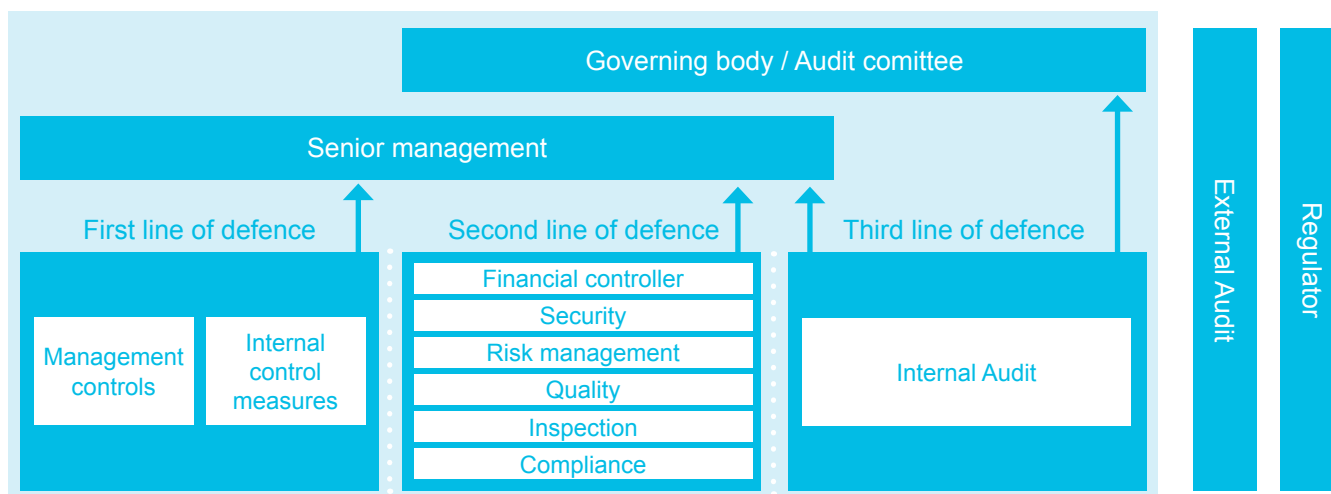
Councils must have a means of obtaining independent assurance that the system of internal control is adequate and working effectively. In local authorities there is usually an audit committee (sometimes called audit and risk committee) to carry out this role.

Usually there is also an overview and scrutiny committee to oversee the decision-making process, ensure that it is clear and that the people taking decisions are held accountable for those decisions.

The existence of an audit committee or scrutiny committee does not remove responsibility from individual members and senior managers, but provides the resource to focus on these issues. There is no 'one-size-fits-all' approach that must be applied to assurance and scrutiny in local government but council leaders and executives must ensure that the model they adopt is independent from the executive and other political influences.

Fraud prevention is heavily reliant on the system of internal control being adequate and working effectively.

Most councils rely on their internal and external auditors to provide these assurances but audit resources are limited and expensive and can never be relied upon to provide assurance across every activity that the local authority is responsible for.



Therefore all councillors and council officers have a role to play in seeking assurance that the controls are working. After the banking crisis a model was devised to try to capture and utilise the various levels of assurance that exist within organisations. This is called the three lines of defence

The majority of members will have little interaction with auditors other than when reading their report at the year-end but as the model shows, in reality the majority of assurance should come from within the organisation itself.

As a councillor you will receive and review a range of information and reports from within your authority or from external sources such as regulators or inspectors. These will often be related to your areas of expertise or committees that you sit on. It will be your responsibility to inspect and challenge the information you receive to assure yourself that it is accurate, credible and evidence based and that it tells you what you need to know.

When considering the fraud risks that your authority might be facing you need to consider whether the controls that you know exist are doing the job they are meant to be doing. If you have concerns that they are not then you need to raise that through the appropriate channels eg with the head of fraud, head of internal audit or through the chair of the audit committee.

Role of audit committees in anti-fraud and corruption activity

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. If you sit on an audit committee you may wish to read more on the role of audit committees in relation to fraud prevention.



Useful links

If you sit on an audit committee the following publication is recommended.

CIPFA audit committees: Practical guidance for local authorities and police
www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-2013-edition-book

In relation to anti-fraud and corruption activities the audit committee will receive regular reports from officers and auditors on the following:

- fraud cases that have occurred within the authority and financial losses
- whistleblowing
- current and emerging fraud risks and how they are being managed
- KPIs relating to fraud prevention and detection performance
- sanctions (including prosecutions and disciplinaries) and recovery actions
- benchmarking data
- resources spent on these activities within the authority.



Activity

Find and obtain the latest fraud update provided to your audit committee and consider the following?

1. Is the reported fraud in line with what you would have expected for your council?
2. Are there any areas where you would have expected fraud that have not been reported on? If so why do you think that might be?
3. In your view is the reporting adequate? If not why not?
4. Has whistleblowing been reported on? Do you have a clear understanding of the whistleblowing arrangements in your authority? If you are unclear you should obtain a copy of your council's policy.

What good looks like – the Fighting Fraud and Corruption Locally Strategy



Turning strategy into action

The themes – Six Cs

Councils should consider their performance against each of the six themes that emerged from the research conducted.

Culture – creating a culture in which beating fraud and corruption is part of daily business.

Capability – ensuring that the range of counter fraud measures deployed is appropriate to the range of fraud risks.

Capacity – deploying the right level of resources to deal with the level of fraud risk.

Competence – having the right skills and standards.

Communication – raising awareness, deterring fraudsters, sharing information, celebrating successes.

Collaboration – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

In addition to the above, the CIPFA code of practice on managing the risk of fraud (see section 4) is there to support organisations putting in place counter fraud arrangements for the first time but will also be of benefit to those seeking to assess whether existing arrangements are adequate. Councillors may wish to ascertain whether the arrangements in their own council compare favourably with the recommended best practice approach.



Useful links

Managing the risk of fraud and corruption

www.cipfa.org/policy-and-guidance/publications/c/code-of-practice-on-managing-the-risk-of-fraud-and-corruption-guidance-notes-hard-copy

In addition to the Code of Practice the Fighting Fraud and Corruption section of the CIPFA website provides a range of free resources to support councils in their fight against fraud, such as leaflets and posters and a good practice bank:
www.cipfa.org/services/counter-fraud-centre/fighting-fraud-and-corruption-locally

Section 6 What you have learned and further reading

Now you have completed this workbook you have a good understanding of the fraud risks that affect councils and some of the methods that are used by authorities to prevent and detect fraud. You should now understand the scale of the problem and the impact that fraud can have on council finances. If you completed some of the activities, you will also have found out more about the arrangements that are in place in your own authority and assessed whether you think they are adequate.

If you completed sections 5 and 6 you will now hopefully feel better equipped to support your authority in the fight against fraud and also be clear on what assurances you should be receiving as committee members.

If you would like to explore this subject further there are a range of materials available for free to read on the CIPFA website:

www.cipfa.org/services/counter-fraud-centre

Other websites that you may find interesting and useful:

www.actionfraud.police.uk – a really useful site where fraud can be reported and also information on fraud scams found.

www.met.police.uk/docs/little_book_scam.pdf – an excellent and really useful publication to help individuals from being scammed; helpful to keep in GP's surgeries.

www.cityoflondon.police.uk/advice-and-support/fraud-and-economic-crime/Pages/default.aspx – the City of London Police Economic Crime Directorate is recognised as the national policing lead for fraud and is dedicated to preventing and investigating fraud at all levels.

Suggested answers for page 14 activity

1. Make a detailed note of everything the resident can tell you about the situation, names, addresses, etc. Take the contact details for the resident and pass everything to the fraud manager (if you have one) or the head of audit if not.
2. You should escalate your question to the appropriate corporate director, noting your concerns with regards to the current risk levels.
3. You should notify the councils monitoring officer
4. You should agree a project plan with the fraud manager or head of audit, with yourself as a figure head or spokesperson. You may wish to include a publicity campaign including posters and leaflets. If so, talk to your council's communications team. As a councillor, you will be in a good position to conduct radio and TV interviews, newspaper quotes and articles. You may wish to concentrate on a particular area of fraud that is particularly prevalent in your area.



Local Government Association

Local Government House
Smith Square
London SW1P 3HZ

Telephone 020 7664 3000
Fax 020 7664 3030
Email info@local.gov.uk
www.local.gov.uk

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***PART 1 – PUBLIC DOCUMENT**

AGENDA ITEM No.

11

TITLE OF REPORT: RISK MANAGEMENT UPDATE

REPORT OF THE HEAD OF FINANCE, PERFORMANCE & ASSET MANAGEMENT
EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM
COUNCIL PRIORITY: PROSPER AND PROTECT / RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To provide the Committee with an update on the Corporate risks. The Office Accommodation and Waste and Street Cleansing Contract Renewal risks have been reviewed. As the Office Accommodation project is nearing completion it is recommended that the level of risk is reduced (from a score of 5 to 3).
- 1.2 To provide the Committee with information on the retendering of the Council's insurance arrangements. The changes that have been made are a balance between the level of risk and the cost of insurance premiums.

2. RECOMMENDATIONS

- 2.1 That the Committee notes and refers the changes in the Corporate risks to Cabinet.

3. REASONS FOR RECOMMENDATIONS

- 3.1 The responsibility for ensuring the management of the risks is that of Cabinet.
- 3.2 This Committee has responsibility to monitor the effective development and operation of risk management.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There are no alternative options that are applicable

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation has been undertaken with SMT and the Risk Management Group (this includes Councillor Cunningham as Risk Management Member 'champion') and these recommendations were supported. Lead Officers discuss these risks with the relevant Executive Member.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

7. BACKGROUND

7.1 At the December meeting of the Finance, Audit and Risk Committee the review of the Risks and Opportunities Management Strategy and the Risk Management Policy Statement were approved and referred on to Cabinet. These were subsequently approved by Cabinet. The Committee noted that there were no reported changes to the Corporate risks for the quarter.

8. RELEVANT CONSIDERATIONS

8.1 Corporate Risks

8.1.1 The Corporate Risks summarised in Table 1 have been reviewed and agreed by SMT. Members are able to view the current risk descriptions on Pentana (was Covalent), the Council's performance and risk management software. The changes to the assessment of the current Corporate risks & opportunities are outlined in sections 8.2 and 8.3. Table 1 shows the last date that the risk was reviewed by the risk owner.

Table 1: Risk and Opportunities Matrix – Proposed Changes

Likelihood	3 High	4	7 • Income Generation (18.12.17) • Sustainable Development (2 x Sub Risks) (25.10.17)	9 • Local Plan (28.07.17) • Managing the Council's Finances (30.10.17) • North Hertfordshire Museum and Hitchin Town Hall Project (08.02.18)
	2 Medium	2	5 • Increased Homelessness and Use of B&B (03.01.18) • Workforce Planning (17.10.17)	8 • Cyber Risks (10.11.17) • Waste and Street Cleansing Contract Renewal (8 x Sub Risks) ↔
	1 Low	1	3 • Office Accommodation ↓ from a 5	6
		1 Low	2 Medium	3 High
		Impact		

- 8.2 **Office Accommodation.** In February 2018 Officers reviewed the risk and reduced the likelihood risk score to “Low” (1). This is to reflect the fact that the project is almost complete, and staff are already being returned to the DCO. It was agreed that the risk entry should not be closed until a post implementation review had been completed and lessons learned had been captured. This proposed change will move the Office Accommodation risk from a **5** to a **3** on the Matrix.
- 8.3 **Waste and Street Cleansing Contract Renewal.** In February 2018 Officers reviewed the sub risks for Waste. As a result the risk score for the Northern Transfer station and ancillary facilities was increased to 8. The likelihood was increased due to the re-letting of the residual waste transfer contract by HCC and the need for the depot to be secured for the new waste contract. In addition, the risk score for the Commingled Waste was increased to 7 to reflect the global economic climate and the impact of China’s restrictions on plastics for recycling and the new contract re-letting. The overall risk score for Waste remains unchanged as an **8** on the Matrix.
- 8.4 **Insurance.** A retendering exercise has been undertaken for the various insurances that the Council has in place. This included getting various prices so that options could be assessed. Overall it is estimated that savings of at least £30k can be achieved. The following paragraphs summarise the key changes.
- 8.4.1 The Council’s existing providers of liability insurance offered to renew for the same premium, but with an increase in excess to £10k per claim (was £5k). In overall terms this is a relatively small increase in the excess. When this was last tendered (in 2016), our current insurers were the only ones that provided a good price combined with a good quality rating. An increase in premium (or excess) would be expected due to changes in the way that injury pay-outs are calculated. The Council has had very few claims over the last 5 years and on that basis it is estimated that it would be cheaper to have an increased excess rather than a higher premium. As a result of this the liability insurance will be renewed with the existing insurer.
- 8.4.2 The Council currently has “all risk” insurance that covers museum exhibits and other valuables. This will be changed for a bespoke fine art policy which is slightly cheaper, provides more relevant cover and is often required to host visiting exhibitions.
- 8.4.3 Business interruption insurance covers the costs of getting the Council back up and running after a disaster (e.g. fire, flood). It also currently provides loss of revenue insurance for leisure services. As the liability for this should be with Stevenage Leisure Limited, it is intended that this cover will be removed subject to confirming the decrease in premium. The level of cover will also be increased from £500k to £1 million. This is linked to the potential future disposal of the Town Lodge site which would mean that it could not be used in the event of a disaster affecting the District Council Offices. The annual premium for this increased cover will be around £1k.
- 8.4.4 There is currently terrorism cover in place across all the Council’s properties. The annual premium could be significantly reduced by excluding certain non-key buildings. Detailed pricing is being obtained for this and this will then be reviewed.

9. LEGAL IMPLICATIONS

- 9.1 The Committee's Terms of Reference include "to monitor the effective development and operation of risk management and corporate governance, agree actions (where appropriate) and make recommendations to Cabinet." This report gives the Committee the opportunity to review and comment on the high level Risks and how they are proposed to be managed.

10. FINANCIAL IMPLICATIONS

- 10.1 There are no direct financial implications from this report.

11. RISK IMPLICATIONS

- 11.1 The Risk & Opportunities Management Strategy requires the Finance Audit & Risk Committee to consider regular reports on the Council's Corporate Risks. Failure to provide the Committee with regular updates would be in conflict with the agreed Strategy and would mean that this Committee could not provide assurances to Cabinet that the Council's identified Top / Corporate Risks are being managed.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 Reporting on the management of risk provides a means to monitor whether the council are meeting the stated outcomes of the district priorities, its targets or delivering accessible and appropriate services to the community to meet different people's needs. The risks of NHDC failing in its Public Sector Equality Duty are recorded on the Risk Register. The Council's risk management approach is holistic, taking account of commercial and physical risks. It should also consider the risks of not delivering a service in an equitable, accessible manner, and especially to its most vulnerable residents such as those who are homeless

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and "go local" policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct Human Resource implications arising from this report, but it should be noted that there is a separate Corporate Risk relating to Workforce Planning.

15. APPENDICES

- 15.1 Appendix A – the Corporate Risks & Opportunities with changed assessments.

16. CONTACT OFFICERS

Rachel Cooper
Controls, Risk & Performance Manager
rachel.cooper@north-herts.gov.uk
01462 474606

Ian Couper
Head of Finance, Performance & Asset Management
ian.couper@north-herts.gov.uk

17. BACKGROUND PAPERS

- 17.1 The risks held on Pentana the Council's Performance and Risk Management IT system.

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Office Accommodation

APPENDIX A

Generated on: 02 February 2018



Risk Code	TR51	Risk Title	Office Accommodation
Risk Owner	Howard Crompton	Updated By	Howard Crompton
Year Identified	2013	Corporate Priority	Responsive and Efficient
Risk Description	As a result of failure to: - Create more open plan space - Minimise disturbance caused by refurbishment works - Have suitable and safe temporary accommodation - Fully anticipate all the costs of the project - Fully engage all staff and Members - Reduce physical storage requirements - Provide sufficient IT and telephony requirements and a suitable public reception in Town Lodge - Have sufficient capacity to deliver the project - Ensure the financial health and competence of the manufacturer/contractor There is a risk that there is: - Failure to complete the project on time, to cost and within the specification - Failure to refurbish the offices as outlined in the original Business Case - Failure to make additional revenue savings/gains from letting - Inability to repair the exterior of the DCO in the long term - Deterioration in services provided to the public - Failure to moderate internal temperatures - Difficult working conditions leading to a deterioration in officers performance - Failure to attract other partners to share the building that could lead to underutilised office space - Failure to manage expectations		
Opportunities	Purchasing and refurbishment of the DCO provides the following opportunities: - Reduction in revenue expenditure for annual rent - Significant investment with the opportunity of providing employment during the construction phase of the project - More open plan arrangements encourages closer working between directorates and the removal of internal walls facilitates increased desk densities and greater workspace flexibility - Improvements to temperature issues will assist in achieving improved productivity - Long-term commitment to remain in Letchworth town centre - Environmental benefits through reduced CO2 emissions, both from the refurbished building and compared to those generated by a new build scheme - To provide a civic centre for a range of services - Other public sector users would provide a rental income; third sector users could facilitate grant reductions due to provision of subsidised space - Commercial rentals		
Consequences	The consequences of these risks include the following: - Continued energy inefficiencies resulting in lack of reduction in emissions and increased utility bills - Current office conditions do not improve - Negative impact on service delivery and morale leading to increase in complaints from the public - Increase in staff complaints, particularly during the temporary decant - Project costs exceed the approved budget - Business Case benefits are not realised		

Office Accommodation

Work Completed	- Home working now embedded reducing the need for office space - Full Council approved purchase and early refurbishment plan for DCO on 18 July 2013 - Start-up documents for next project phase (refurbishment works) approved by Project Board and SMT - Established officer project group following Council approval to proceed - Additional questions regarding office accommodation incorporated into 2014 staff survey - Architectural services commissioned from Stevenage BC - Space planning consultancy advice commissioned - Agreement to use Town Lodge and the Letchworth Museum building as temporary accommodation for the duration of the works - Two staff briefings held to date - External designs have Planning and LGCHF approval - Specification for internal works agreed - Finalised agreement for Letchworth storage facility (Unit 3) - Council approved revised budget and final scheme requirements on 14 July 2016 - No responses received to the original tender - Subsequently entered into a Scape framework agreement, the principal contractor being Willmott Dixon - Property Services and IT met with teams to determine storage requirements and to review the possibility of electronic storage - Decant to Town Lodge/Letchworth Museum completed in early December 2016 - Completed negotiations/value engineering with Willmott Dixon regarding the level of works achievable within the approved budget available - Modifications to design/specification required - Contract signed in February 2017 (total contract value including removal of all identified asbestos is £5,633,382.80) - Willmott Dixon completed a site survey of the DCO regarding asbestos removal - Site survey identified substantially more asbestos in the building than initially expected (£250k of additional work) - Confirmed contingency/security arrangements during the works relating to the servers - DCO cleared ready for the commencement of works - Willmott Dixon commenced work on site on 6 March 2017 - Removal of asbestos completed by specialist contractors - Required demolition works completed - Construction phase commenced - The Council took possession of the DCO and the ground area around it on 26 January 2018, with the exception of the lifts and the lift shafts (sectional completion)		
Ongoing Work	- Continue to explore opportunities for potential partners to use some of the office space in the DCO - Clear top level buy-in regarding refurbishment proposals, including more open plan and hot-desking provision, along with temperature moderation measures - Staff consultation and engagement ongoing, e.g. regular email updates to staff and councillors, with representatives from service areas being involved in the project - Where necessary, external skills and advice will be obtained - Willmott Dixon responsible for sub-contractor works (including outstanding works to the lifts) - Effective working relationship with Willmott Dixon - Any unforeseen issues identified from surveys or during the works are assessed, with appropriate solutions approved and financed from existing budgets - Works now expected to be completed by 31 March 2018 (Willmott Dixon received assurance from the supplier that at least one lift will be fully operational and commissioned by 9 February 2018, although it may take a few more weeks before the second one is fully operational) - Return to the DCO to commence in February 2018 and due to be completed by 31 March 2018 - Property Services working with managers regarding their requirements for the return to the DCO - Property Services and IT preparing the DCO for the move back - Tours of the DCO being held for staff and Members		
Current Impact Score	2	Current Likelihood Score	1

Office Accommodation

Overall Risk Score	3	Current Risk Matrix	
Date Reviewed	31-Jan-2018	Next Review Date	20-Apr-2018
	02-Feb-2018 Risk reviewed and updated by Howard Crompton on 31 January 2018. Sectional completion occurred on 26 January 2018. Willmott Dixon is still responsible for completion of works to the lifts and lift shafts. Howard was confident that these works would be completed in the next few weeks. Preparations for the return of staff to the DCO were underway and a schedule for the moves had been agreed and circulated. In view of the progress made regarding the construction and office moves, Howard reduced the Likelihood score to 1-Low. There remains a residual risk relating to a failure to attract a tenant to occupy the vacant floor and officers will need to consider if this should be recorded as a separate risk entry following project completion.		
	09-Nov-2017 Risk reviewed and updated by Howard Crompton on 9 November 2017. The project continues to progress and works are still due to be completed by 30 January 2018. The return to the DCO is still scheduled to be completed by the end of March 2018, apart from the relocation of Careline, which will be completed at a later date. Additional works not included in the original Business Case (i.e. the CSC refurbishment and the relocation of Careline) have increased project costs. A number of the risks included in the Risk Description are no longer relevant, i.e. - Failure to refurbish the offices as outlined in the original Business Case. - Inability to repair the exterior of the DCO in the long term. - Deterioration in services provided to the public. - Failure to moderate internal temperatures. - Difficult working conditions leading to a deterioration in officers performance. Officers continue to explore options for letting one floor of the DCO and in view of this, no change made to the Likelihood score.		
	26-Apr-2017 Risk reviewed and updated by Howard Crompton on 26 April 2017. Willmott Dixon commenced work on site on 6 March 2017 and they are currently undertaking asbestos removal and demolition works. Currently, the works are on schedule. Some unforeseen issues have been identified during the works and these are being assessed. Any solutions required will be financed from existing budgets. In view of the progress made and the Council's commitment to complete the refurbishment, Howard reduced the Likelihood risk score to "2- Medium".		
	01-Mar-2017 Risk reviewed and updated by Howard Crompton on 1 March 2017. NHDC has a good working relationship with Willmott Dixon and following the signing of the contract, work on site is due to commence on 6 March 2017. During the early stages of the construction phase, there is a risk that unforeseen issues might arise and that appropriate solutions might need to be approved/financed. Therefore, no changes made to the risk score at present.		

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FINANCE, AUDIT & RISK COMMITTEE 21 MARCH 2018
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*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 12
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TITLE OF REPORT: LOCAL CODE OF CORPORATE GOVERNANCE AND ANNUAL GOVERNANCE STATEMENT ACTIONS (PLAN 2016/17) UPDATE

REPORT OF THE ACTING CORPORATE LEGAL MANAGER

EXECUTIVE MEMBER: LEADER OF THE COUNCIL

COUNCIL OBJECTIVE: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1. For the Finance, Audit & Risk Committee to approve the Local Code of Corporate Governance for 2018; and review the progress of the Annual Governance Statement ('AGS') Action Plan 2016/17.

2. RECOMMENDATIONS

That the Committee:

- 2.1. approves the Local Code of Corporate Governance 2018 (Appendix A); and
- 2.2. notes the current position with the AGS Action Plan (Appendix B) and any carry forward Actions.

3. REASONS FOR RECOMMENDATIONS

- 3.1 It is recommended practice to review the Local Code of Corporate Governance each year to ensure it remains up to date and relevant.
- 3.2 Reviewing the AGS Action Plan during 2017/18 will provide the Committee with assurances that NHDC is following through with recommended changes and/or improvements to its governance arrangements.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 There are no alternative options to be considered.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. The Council's external auditors and SIAS were consulted on the AGS 2016/17. Finance, Audit & Risk Committee Members were given the opportunity to comment on the draft AGS and Action Plan at Committee and post Committee before this was finalised. The AGS referred to assurances provided from various sources (for example internal and external audit reports completed) for the 2016/17 period. The Action Plan was based on recommended action/ planned review procedures recommended by SIAS, SMT and relevant Heads of Service/ Corporate Managers through their assurance statements.

- 5.2. No other external or Member consultation has been undertaken on the content of the report.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

7. BACKGROUND

AGS:

- 7.1 Reference is made to the report of 21 September 2017*, which sets out the AGS and legal requirements for preparation, review and approval of the AGS, together with the matters included/ and parties involved in that process. The AGS reviews the systems in place for the previous financial year and identifies any actions to be undertaken in the forthcoming year as part of an Action Plan.

Local Code of Corporate Governance:

- 7.2 It is recommended good practice for the Local Code of Corporate Governance ('the Local Code') be reviewed annually and was last updated in March 2017. It was based on the current (2016) CIPFA/ SOLACE Framework Delivering Good Governance in Local Government Framework 2016 Edition principles. This remains the basis for an assessment of governance arrangements for the 2017/18 assessment period. Other than minor date changes and wording, the Local Code 2018 therefore remains unchanged (minor changes are shown as tracking on Appendix A).

- 7.3 If the Code is approved by this Committee it will be placed on the NHDC Corporate Governance internet page. Confirmation of the updated Code shall be provided to Members through the MIS process and to employees via the *Insight* monthly staff briefing.

- 7.4 The Code and the CIPFA/SOLACE Framework will then provide the effective scheme against which the AGS operational governance compliance will be measured.

Action Plan:

- 7.5 The last AGS (2016/17) was approved at the Finance, Audit and Risk Committee in September 2017. This included an Action Plan to be reviewed bi-annually. The updated position is provided in Appendix B. This also sets out what is recommended for a carry forward for the Action Plan for the AGS 2017/18.

8. RELEVANT CONSIDERATIONS

- 8.1. The Local Code 2018 is at Appendix A.
- 8.2. The updates on the AGS Action Plan are set out in Appendix B.

9. LEGAL IMPLICATIONS

- 9.1 Any relevant legal implications are set out above (with reference to previous reports on the AGS).
- 9.2 The Terms of Reference of this Committee under 10.1.5(h) are: "*To ensure that an annual review of the effectiveness of internal controls (accounting records, supporting records and financial) systems is undertaken and this review considered before*

approving the Annual Governance Statement.” Review and approval of the AGS is a non-executive function and falls within the Committee’s remit.

10. FINANCIAL IMPLICATIONS

- 10.1 There are no direct financial implications arising from this report.

11. RISK IMPLICATIONS

- 11.1. Ineffective corporate governance arrangements have a number of inherent risks in the context of organisational management, the use of resources and service delivery. Approving a Local Code of Corporate Governance based on the national CIPFA/ SOLACE Framework is a means of mitigating potential risks.
- 11.2. The ongoing review of the identified actions arising from the AGS provides the Committee with assurance that measures are being put in place to reduce identified risks. The process of assessing the Council’s governance arrangement enables any areas of weakness to be identified and an Action Plan to improve governance identified and monitored.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equality implications of this report or the AGS. Where relevant the Council’s arrangements have been assessed against the 2016 Framework Principles. In respect of those arrangements, the SMT AGS self-assessment identifies the procedures in place and any outcomes. Council reports include any equality implications and are assessed by the Policy Officer. Where appropriate an impact assessment will be undertaken and mitigation measures identified. The Senior Policy Officer undertakes an Annual Cumulative Equality Impact Assessment of these and publishes it on the Council’s website¹.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and “go local” policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications relating to this matter.

15. APPENDICES

- 15.1 Appendix A – Local Code of Corporate Governance 2018.
- 15.2 Appendix B – AGS Action Plan update.

¹ <https://www.north-herts.gov.uk/home/council-performance-and-data/policies/equality-and-diversity>

16. CONTACT OFFICERS

- 16.1 Jeanette Thompson 01462 474370. Acting Corporate Legal Manager:
jeanette.thompson@north-herts.gov.uk

Officer responses:

- 16.2 Antonio Ciampa 01462 474566 Accountancy Manager:
antonio.Ciampa@north-herts.gov.uk

- 16.3 Reuben Ayavoo 01462 474212 Senior Policy Officer:
reuben.ayavoo@north-herts.gov.uk

17. BACKGROUND PAPERS

- 17.1. The Finance, Audit & Risk Report (21 September 2017 website links:* [AGS 2016/17 report](#); [Appendix A - Annual Governance Statement 2016-17](#); [Appendix B - Action Plan Update](#)).

- 17.2. Local Code of Corporate Governance March 2016 (<https://www.north-herts.gov.uk/sites/northherts-cms/files/Local%20Code%20of%20Corporate%20Governance%2022%203%2017.pdf>).
(Webpage: <https://www.north-herts.gov.uk/home/council-data-and-performance/policies/corporate-governance>

- 17.3. Annual Governance Statement 2016/17 <https://www.north-herts.gov.uk/sites/northherts-cms/files/Annual%20Governance%20Statement%2016%2017.pdf> (Webpage: <https://www.north-herts.gov.uk/home/council-data-and-performance/policies/corporate-governance>).

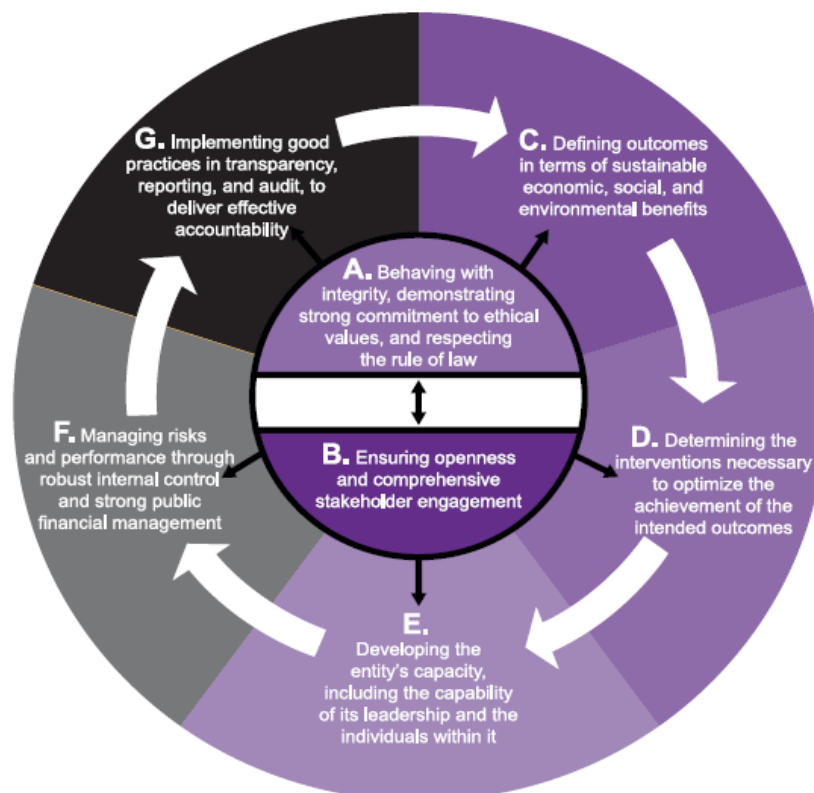
LOCAL CODE OF CORPORATE GOVERNANCE

1. INTRODUCTION

- 1.1 North Hertfordshire District Council (NHDC) is committed to achieving good corporate governance and this Local Code of Corporate Governance confirms its ongoing commitment to do so.
- 1.2 This Code outlines NHDC's approach towards corporate governance and the principles against which its arrangements will be measured.

2. WHAT IS CORPORATE GOVERNANCE?

- 2.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Government Chief Executives (SOLACE) set the standard for local authority governance in the UK through their Framework principles and published a new set in April 2016. These principles *are themselves* derived from the International Framework: Good Governance in the Public Sector (CIPFA/IFAC, 2014) (the 'International Framework'). NHDC's Code is therefore based on these principles:



- 2.2. The 2016 Framework defines governance as comprising of: ***“...the arrangements (including political, economic, social, environmental administrative, legal, and other arrangements) put in place to ensure that the intended outcomes for stakeholders are defined and achieved.”***

2.3. The CIPFA/Solace Framework states¹ that ***“To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out.”***

2.4. These principles and sub-principles are:

Principles in bold, Sub-principles in italics.
Principle A: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.
1) Behaving with integrity
<i>i) Ensuring Members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation.</i>
<i>ii) Ensuring Members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles).</i>
<i>iii) Leading by example and using these standard operating principles or values as a framework for decision making and other actions.</i>
<i>iv) Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively.</i>
2) Demonstrating strong commitment to ethical values
<i>i) Seeking to establish, monitor and maintain the organisation’s ethical standards and performance.</i>
<i>ii) Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation’s culture and operation.</i>
<i>iii) Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values.</i>
<i>iv) Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation.</i>
3) Respecting the rule of law
<i>i) Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as</i>

¹ Delivering good governance in Local Government Framework (2016 Edition)
FAR Committee (21.03.18)

<i>adhering to relevant laws and regulations.</i>
<i>ii) Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements.</i>
<i>iii) Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders.</i>
<i>iv) Dealing with breaches of legal and regulatory provisions effectively.</i>
<i>v) Ensuring corruption and misuse of power are dealt with effectively.</i>
Principle B. Ensuring openness and comprehensive stakeholder engagement.
Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.
1) Openness
<i>i) Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness.</i>
<i>ii) Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided.</i>
<i>iii) Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear.</i>
<i>iv) Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/courses of action.</i>
2) Engaging comprehensively with institutional stakeholders
<i>i) Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably.</i>
<i>ii) Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively.</i>
<i>iii) Ensuring that partnerships are based on:</i> — <i>trust</i> — <i>a shared commitment to change</i> — <i>a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit.</i>
3) Engaging stakeholders effectively, including individual citizens and service users
<i>i) Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes.</i>
<i>ii) Ensuring that communication methods are effective and that members and officers are clear</i>

<i>about their roles with regard to community engagement.</i>
<i>iii) Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs.</i>
<i>iv) Implementing effective feedback mechanisms in order to demonstrate how their views have been taken into account.</i>
<i>v) Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.</i>
<i>vi) Taking account of the interests of future generations of tax payers and service users.</i>
Principle C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.
1) Defining outcomes
<i>i) Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions.</i>
<i>ii) Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer.</i>
<i>iii) Delivering defined outcomes on a sustainable basis within the resources that will be available.</i>
<i>iv) Identifying and managing risks to the achievement of outcomes.</i>
<i>v) Managing service user's expectations effectively with regard to determining priorities and making the best use of the resources available.</i>
2) Sustainable economic, social and environmental benefits
<i>i) Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision.</i>
<i>ii) Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints.</i>
<i>iii) Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs.</i>
<i>iv) Ensuring fair access to services.</i>
Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

1) Determining interventions

i) Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided.

ii) Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts.

2) Planning interventions

i) Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets.

ii) Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered.

iii) Considering and monitoring risks facing each partner when working collaboratively including shared risks.

iv) Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances.

v) Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured.

vi) Ensuring capacity exists to generate the information required to review service quality regularly.

vii) Preparing budgets in accordance with organisational objectives, strategies and the medium term financial plan.

viii) Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy.

3) Optimising achievement of intended outcomes

i) Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints.

ii) Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term.

iii) Ensuring the medium term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource

usage.
<i>iv) Ensuring the achievement of 'social value' through service planning and commissioning. The Public Services (Social Value) Act 2012 states that this is "the additional benefit to the community...over and above the direct purchasing of goods, services and outcomes".</i>
Principle E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.
1) Developing the entity's capacity
<i>i) Reviewing operations, performance use of assets on a regular basis to ensure their continuing effectiveness.</i>
<i>ii) Improving resource use through appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently.</i>
<i>iii) Recognising the benefits of partnerships and collaborative working where added value can be achieved.</i>
<i>iv) Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources.</i>
2) Developing the capability of the entity's leadership and other individuals
<i>i) Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained.</i>
<i>ii) Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body.</i>
<i>iii) Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority.</i>
<i>iv) Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:</i> <i>- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged.</i> <i>- ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update</i>

their knowledge on a continuing basis ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis.

- *ensuring personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external.*

v) Ensuring that there are structures in place to encourage public participation.

vi) Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections.

vii) Holding staff to account through regular performance reviews which take account of training or development needs.

viii) Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing.

Principle F. Managing risks and performance through robust internal control and strong public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery.

Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

1) Managing risk

i) Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making.

ii) Implementing robust and integrated risk management arrangements and ensuring that they are working effectively.

iii) Ensuring that responsibilities for managing individual risks are clearly allocated.

2) Managing performance

i) Monitoring service delivery effectively including planning, specification, execution and independent post implementation review.

ii) Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook.

iii) Ensuring an effective scrutiny or oversight function is in place which encourages constructive

challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible.

iv) Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement.

v) Ensuring there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements).

3) Robust internal control

i) Aligning the risk management strategy and policies on internal control with achieving the objectives).

ii) Evaluating and monitoring the authority's risk management and internal control on a regular basis).

iii) Ensuring effective counter fraud and anti-corruption arrangements are in place).

iv) Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor).

v) Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body:

- provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment*
- that its recommendations are listened to and acted upon.*

4) Managing data

i) Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data.

ii) Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies.

iii) Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring.

5) Strong public financial management

i) Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance.

ii) Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls.

Principle G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

1) Implementing good practice in transparency
<i>i) Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate.</i>
<i>ii) Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand.</i>
6) Implementing good practices in reporting
<i>i) Reporting at least annually on performance, value for money and the stewardship of its resources.</i>
<i>ii) Ensuring members and senior management own the results.</i>
<i>iii) Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement).</i>
<i>iv) Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate.</i>
<i>v) Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations.</i>
7) Assurance and effective accountability
<i>i) Ensuring that recommendations for corrective action made by external audit are acted upon.</i>
<i>ii) Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon.</i>
<i>iii) Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations.</i>
<i>iv) Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement.</i>
<i>v) Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met.</i>

3. NHDC'S GOVERNANCE AIM

3.1. NHDC aims to meet the above Framework principles in a cost efficient and effective governance manner. The Council is required to review its arrangements annually and will assess these against the principles and prepare and publish an Annual Governance Statement (AGS) in accordance with Delivering Good Governance in Local Government: Framework (2016) and the statutory requirements².

² Under the Local Audit and Accountability Act 2014 ('LAAA 2014') and the Accounts and Audit Regulations 2015/234

- 3.2. Many of the requirements contained within the principles and this Code are included in the Council's Constitution and the Council's key strategies and policies, which are available through the Council's website:

<https://www.north-herts.gov.uk/>

As part of the annual assessment, the AGS will, however, set out how the requirements have been met through specific examples/ outcomes as against the above principles; or if these have not been met in part/ fully, detail the actions NHDC will take to address the matter. The assessment document will be published on the Council's website.

4. NHDC'S VISION

- 4.1. Leadership and collaborative working are developed themes within NHDC. It has a vision and Corporate Plan that sets out NHDC's strategic ambitions and aspirations for the district for 2017-2021.

- 4.2. NHDC's Vision is:

'Making North Herts a vibrant place to live, work and prosper'.

This is not just the Council's vision. It belongs to and it was created by all of the partners in the North Hertfordshire Partnership. It is clear that the Council must work with its partners, businesses, and urban and rural communities to achieve this vision.

- 4.3. NHDC's internal corporate business planning process supports the delivery of the vision in terms of what we do and the collaborative work we carry out in conjunction with our partners.

- 4.4. The vision is supported by the Council's Corporate Objectives, which for 2017 onwards are:

- **Attractive & Thriving**

To work with our partners to provide an attractive and safe environment for our residents, where diversity is welcomed and the disadvantaged are supported.

- **Prosper & Protect**

To promote sustainable growth within our district to ensure economic and social opportunities exist for our communities, whilst remaining mindful of our cultural and physical heritage.

- **Responsive & Efficient**

To ensure that the Council delivers cost effective and necessary services to our residents that are responsive to developing need and financial constraints.

- 4.6 The Council aspires to achieve its priorities in an open and transparent manner having due regard to equal opportunities and the opportunities and benefits proffered by innovative and flexible partnership working.

5. CONCLUSION

To ensure that it keeps its aims, NHDC will:

- Review its Local Code of Corporate Governance annually to ensure that it reflects current recommended practice and remains a "live" document;

- Monitor all arrangements in place for practical effectiveness;
- Review practices, procedures and guidelines on a regular basis;
- Review its arrangements and report these through the AGS on how NHDC is complying with the principles/ the Code. This will include oversight of the assessment by the Senior Management Team and Member consideration and approval (through appropriate bodies). This assessment will include review of: the annual internal auditor's opinion from the Head of the Shared Internal Audit Service (SIAS); external auditors opinion/ letter; managers' assurance statements; the Finance, Audit and Risk Committee annual report/ review of its effectiveness; inspection reports (SIAS and the Shared Anti-Fraud Service – SAFS); Ombudsman's recommendations; annual Scrutiny report; Standards Committee report; project governance and risk arrangements;
- Identify any necessary governance actions in the AGS including appropriate timescales and designate Lead Officers for the forthcoming year;
- Ensure that actions identified in the AGS are monitored and reported back through the Senior Management Team process (as appropriate) and to Members of Finance, Audit and Risk Committee.

Review date – 21 March 2018

This Code will be reviewed by 31st March 2019 unless any significant changes are required in the interim.

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Action	Officer update
1. Introduce new Member Induction programme from 2018. Consider including a session on media relations. Member training/ Charter to be considered by SIAS and recommendations taken forward [Democratic Services Manager].	Draft SIAS report on Member development issued and in the process of being finalised. Implementation of any proposals will be monitored through Action (20).
2. Implementation of Cabinet resolutions of 28 March 2017 ¹ on Data Protection/ Freedom of Information SIAS review recommendation. To review and potentially introduce new Member training e-learning system from June 2017 [Head of Revenues, Benefits & IT -HoRB & IT].	The new E-Learning system GROW Zone has been implemented, although it has taken longer to put into operation than expected. With GDPR coming into force in May 2018, it has been decided to wait for that new legislation and implement a new e-learning module for this. The Council has a suitable e-learning module and is currently working on adapting this for the Council's needs <i>[ongoing, carry forward to next Action Plan]</i> .
3. Monitor Employee Annual Declaration returns as a KPI for 2017 [Corporate Human Resources Manager -CHRM / Learning & Development Officer]	As at 2.3.18, 43 remain outstanding for the last RPR period. As the RPR cycle starts again in April, this will be monitored on an ongoing basis thereafter, and this can become part of an operational review, rather than through the AGS Actions Plan process. Completed.
4. Executive Member for Policy, Transport and Green Issues to review Member leadership/ communicating shared values (sub-principle A1ii) as part of Corporate Plan review process [Chief Executive with Group Leaders in-put] Senior Policy Officer response.	The aim is developing new cultural shared values/challenges for Members (& employees): Challenge 1. Innovate, improve and think commercially (and never lose focus on daily service delivery and customer service); Challenge 2. Be goal focussed and be flexible to meet changing demands and circumstances; Challenge 3. Recruit and develop for effective leadership skills and value contributions at all levels and from everybody; Challenge 4. Face challenges bravely and honestly and be respectful to people; Challenge 5. Value well being and develop resilience and be performance focussed. Once these have been finalised then the aim will be for these to be incorporated as part of the Corporate Plan process for adoption by the Council as a whole. <i>[ongoing, carry forward to next Action Plan]</i> .

¹ <http://web.north-herts.gov.uk/aksnherts/users/public/admin/kab12.pl?cmte=CAB&meet=103&arc=71>

5. Constitutional review to change sections 12 & 14 [MO].	These to be finalised post reorganisation consultation. [ongoing carry forward to next Action Plan with July 2018 deadline].
6. Delegated Decision Guidance under consideration in respect of delegated planning decisions [MO/ Deputy MO]. 7. Delegated Planning Decision report template being reviewed in the light of a number of court cases [Planning Control & Conservation Manager/ Planning Lawyer]	In terms of The Openness of Local Government Bodies Regulations 2014, and their application to delegated Planning Decisions, NHDC and the other Herts LPA's have discussed this matter and NHDC will write to the DCLG outlining concerns that some LPA's have and the proposed approach to dealing with the perceived conflict between the Regulations and the subsequent planning public register requirements under The Town and Country Planning (Development Management Procedure) (England) Order 2015. For the meantime the Council shall comply with the spirit of the Openness & Transparency Regulations in terms of inspection and making copies available upon request/ payment. Delegated planning decision template is being reviewed / updated. [ongoing, carry forward to next Action Plan].
8. Member Code of Conduct and declaration forms to be reviewed [MO].	New Code and Register of Interests forms approved on 23 November 2017 by Full Council for implementation 4 May 2018 post election Completed.
9. Monitoring anti-bribery e-learning/ alternative uptake for Members/ Employees all to undertake [DMO/ CHRM / Learning & Development Officer & SMT].	This was a one off e-learning requirement. Under the old system, for the Anti Bribery eLearning in December 2017 the figures were 277 complete, 5 in progress and 45 not started. On the new system there are 75 complete, 25 in progress and 231 not started (this includes all users on the GROW Zone including agency workers/temps – <i>although those who had previously undertaken this would not be required to do so once again.</i> 4 Members had undertaken this module under the old e-learning system. No members have completed it to date on the GROW Zone. Consider ways of encouraging Members to undertaking this type of training through any recommended Member development and / or compulsory training route.

10. SAFS to roll out an e-learning anti-fraud training package for employees during 2017 [SAFS Manager]	SAFS has developed the e-learning module with the HCC Learning & Development Team. It has not been rolled out to the Partner Organisations yet. Our Learning & Development team are liaising with HCC Learning & Development on the best way to get this into GROW Zone e-learning. This applies to all the Partner Organisations and HCC Learning & Development has apologised for the delays, which they have indicated relates to changes in staffing and resources. [ongoing, carry forward to next Action Plan] .
11. IIP assessment 2017 – review outcome by March 2018 [CHRM]	IIP report will be presented to SMT on 27 March 2018 [ongoing, carry forward to next Action Plan] .
12. Contract Guides to be updated to consider reflecting appropriate ethical practices [Head of Finance, Performance & Asset Management - HoFPAM /Payment & Reconciliations Manager]	Version 1 of the Contract Management guide has been finalised and placed on the intranet for use by Managers. This is now subject to an annual review in line with the review of the Contract Procurement Rules. This year's review (1718) will include references to appropriate ethical practices as recommended; review taking place in March 2018 with updates to go through Contract Procurement Group Meeting 26 April 2018 [ongoing, carry forward to next Action Plan] .
13. Corporate Equality Strategy to be uploaded on website (once approved) in 2017 [Senior Policy Officer]	Completed.
14. Job descriptions, delegations and organisational chart to be updated on website following reorganisation during 2017 [CHRM]	To be completed post reorganisation [ongoing & carry forward Action Plan 2017/18] .
15. Financial Regulations to be reviewed 2017/18 following reorganisation/ Constitution redrafting [HoFP&AM]	Completed. Reviewed and approved by Full Council on 18 January 2018.
16. To consider ways to feedback results following consultation [Communications Manager]	Waiting for O&S to schedule a task & finish group on consultation [ongoing & carry forward Action Plan 2017/18] .
17. Investigate the possibility of realistic and cost effective Social Value report/ Cumulative Analysis Action for 2017/18 [SMT]	To be discussed at Contract Procurement Group on 26 April 2018 [ongoing & carry forward Action Plan 2017/18] .
18. Review O&S Committee once Central Government's national inquiry completed [SMT].	The Communities & Local Government Select Committee reported their findings on 16 January 2018. The report made a number of recommendations, some requiring guidance and legislation to be amended. The Council is in the

	process of considering a peer review, and in the light of this and the CLG recommendations, this is to be carried forward for the next AGS Action Plan 2017/18 [ongoing & carry forward Action Plan 2017/18].
19. Preparation for General Data Protection Regulation 'GDPR' implementation by May 2018 [HoRB &IT]. Privacy Impact Assessments (PIA) forms/ prompt be part of the NHDC Project Management Framework/ checklist by September 2017 [HoFP&AM].	Privacy Impact Assessment (based on ICO format and similar to the new Data Protection Impact Assessment) scoping and full assessment is part of Project Management Framework [Completed]. The project is proceeding and Data protection staff are working with service areas where there have been identified gaps in their ability to meet the new requirements. A new Privacy Statement is also being developed. Awareness training for employees and Members will be arranged for the end of March. It was originally intended to do this earlier but priority has been given to dealing with the gaps and it was felt that training in February may have been too early. An e-learning module has been obtained and is currently being adapted for our needs [ongoing & carry forward Action Plan 2017/18].
20. Implementation of any outstanding SIAS recommendations [HoFP&AM].	Outstanding SIAS recommendations (high and medium) are now reported on a quarterly basis to SMT and FAR. Each audit action is set up within Pentana Performance, assigned to Managers, with target dates for completion. All audit actions currently showing as "green" as at 6.3.18 [ongoing & carry forward Action Plan 2017/18].

FINANCE, AUDIT & RISK COMMITTEE

21 MARCH 2018

*PART 1 – PUBLIC DOCUMENT

AGENDA ITEM No.

13

The following is the report to be considered by the Cabinet at its meeting to be held on 23 January 2018. The Committee is invited to comment on the report.

TITLE OF REPORT: THIRD QUARTER REVENUE MONITORING 2017/18

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform Cabinet of the summary position on revenue income and expenditure forecasts for 2017/18, as at the end of the third quarter (31 December 2017). There is a forecast variance for 2017/18 of **£60k increase** from the working budget of £16.415million, with an impact in the following year of **£30k increase**, and a request to carry forward budget of **£30k** to fund a specific project in 2018/19. Within these summary totals there are several budget areas with more significant variances, which are detailed and explained in table 2. The report also provides an update on;
- the progress with the planned delivery of efficiencies (paragraph 8.3)
 - the use of budget approved to be carried forward from 2016/17 (paragraph 8.4)
 - performance against the four key corporate 'financial health' indicators (paras 8.5-8.7)
 - the overall forecast funding position for the Council and factors that may affect this (paras 8.8 – 8.14)

2. RECOMMENDATIONS

- 2.1 That Cabinet note this report.
- 2.2 That Cabinet approves the changes to the 2017/18 General Fund budget, as identified in table 2 and paragraph 8.2, a £60k increase in net expenditure.
- 2.3 That Cabinet approves the changes to the 2018/19 General Fund budget, as identified in table 2 and paragraph 8.2, a £60k increase in net expenditure.

3. REASONS FOR RECOMMENDATIONS

- 3.1 Members are able to monitor and request appropriate action of Services who do not meet the budget targets set as part of the Corporate Business Planning process.
- 3.2 Changes to the Council's balances are monitored and approved.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Budget holders have considered the options to manage within the existing budget but consider the variances reported here necessary and appropriate.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation on the budget monitoring is not required. Members will be aware that there is wider consultation on budget estimates during the corporate business planning process each year.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 2nd February 2018.

7. BACKGROUND

- 7.1 Council approved the revenue budget in February 2017 of £16.545 million. As at quarter 3 the working budget has reduced to £16.415 million. Table 1 below details the approved changes to this budget to get to the current working budget:

Table 1 - Current Working Budget

	£k
Original approved budget for 2017/18	16,545
Proposed Crematorium at Wilbury Hills Cemetery - Interim Report On Business Case – approved by Cabinet 28 th March 2017	50
Quarter 3 2016/17 Revenue Monitoring report - 2017/18 budget changes approved by Cabinet (March 2017)	199
2016/17 Revenue Outturn Report - 2017/18 budget changes approved by Cabinet (June 2017)	228
Quarter 1 2017/18 Revenue Monitoring report - 2017/18 variances approved by Cabinet (September 2017)	208
Quarter 2 2017/18 Revenue Monitoring report - 2017/18 variances approved by Cabinet (November 2017)	(131)
Revenue monitoring included within 2018/19 budget report – 2017/18 variances approved by Cabinet (January 2018)	(684)
Current Working Budget	16,415

8. RELEVANT CONSIDERATIONS

REVENUE INCOME AND EXPENDITURE FORECASTS

- 8.1 Service Managers are responsible for monitoring their expenditure and income against their working budget. Table 2 below highlights those areas where there are forecast to be differences. An explanation is provided for each of the most significant variances, which are generally more than £25k. The final column details the estimated impact on the 2018/19 budget:

Table 2 - Summary of forecast variances

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2018/19 £k
Planning Services - Income	-850	-1,093	-243	£210k of the forecast additional planning application income is associated with the receipt of two large applications for developments in Baldock. In addition, a further £33k is also now anticipated following Government passing legislation to allow authorities to increase planning fees by 20%. The increase in fees came into effect on the 17th January. A condition of the legislation is that the resulting additional income is re-invested in the development of the service, hence it is requested that the additional £33k income is used to fund additional planning resources in 2018/19.	0	33
Planning Services – Transfer to reserve	+122	+328	+206	£4k of the £210k additional planning receipts anticipated above has been earmarked to meet costs connected to the planning software system upgrade. It is requested that the remaining amount is transferred to an earmarked reserve. As discussed at Cabinet in December and indicated in the financial risks for 2018/19, there are significant risks associated with the progress of the Council's Local Plan. The balance in the earmarked reserve will therefore be used to mitigate the financial impact of associated risk(s) materialising in the coming years.	0	0
TOTAL	-728	-765	-37		0	33
Income from NHDC Burial Grounds	-329	-276	+53	Income from the sale of burial plots, interment, monuments and inscriptions in April to December 2017 is 14% lower than the equivalent period in 2016. This could be a consequence of the opening of the Memoria crematorium in Holwell in June 2017. This new provision has made the option of cremation more accessible for North Herts residents, which would contribute to a reduction in requests received for ground burials.	0	0
Parking Services – Lines and Signs Maintenance Works	+67	+12	-55	Progress in commissioning works identified from the lines and signs audit has not been as expected this year due to a lack of staffing resource available, with other staff members within the Strategic Planning Team focused on progressing the Council's Local Plan. It is requested that £30k of the forecast underspend be carried forward to fund the cost of the works outstanding in 2018/19.	30	0

Budget Area	Working Budget £k	Forecast £k	Variance £k	Reason for difference	Carry Forward Request £k	Estimated Impact on 2018/19 £k
Hitchin Town Hall Income	-204	-146	+58	The delayed opening of the Café and Museum has reduced the income expectation from the facility in this year. The opening of the museum and café was expected to increase the footfall around the facility and so help in raising awareness of what services and activities are available. Lower than expected income from the facility was identified as a financial risk.	0	0
Leisure Services Leisure Centre Repairs and Maintenance	11	54	+43	The majority of the expenditure in this year has been incurred at Archers and Hitchin Swim Centre and has included plant room maintenance as well as repairs to outside paving and fencing. It is proposed that these works are funded from the Leisure Maintenance earmarked reserve, a provision which has been maintained over a number of years in order to meet more significant maintenance costs required at the Council's Leisure Centres.	0	0
Transfer to / from earmarked reserve	0	-43	-43		0	0
TOTAL	11	11	0		0	0
Total of explained variances	-1,183	-1,164	+19		+30	+33
Other minor balances	17,632	19,583	+41		0	-3
Overall Total	16,415	16,475	+60		+30	+30

8.2 Cabinet are asked to approve the differences highlighted in the table above, a **£60k increase** in spend, as an adjustment to the working budget for 2017/18 (recommendation 2.2). Cabinet are asked to approve the estimated impact on the 2018/19 budget, a **£60k increase** in budget (recommendation 2.3), which includes the request to carry forward £30k of budget from 2017/18 to 2018/19 for projects that are not expected to be completed by the end of the financial year

8.3 The original approved budget for 2017/18 (and therefore working budget) included efficiencies totalling £929k, which were agreed by Council in February 2017. Any under or over delivery of efficiencies will be picked up by any budget variances (table 2 above). However there can be off-setting variances which mean that it is unclear whether the efficiency has been delivered. Where this is the case, this will be highlighted. The current forecast is a net overachievement of £206k. This relates to:

- Net overachievement reported at Q1 of £50k
- Net underachievement reported at Q2 of £165k
- Planning income; further overachievement of £379k, of which £137k was highlighted in the month 8 revenue monitor and the remaining £243k highlighted in table 2 above.
- Income generated from Hitchin Town Hall Community Facility; an underachievement of £58k detailed in table 2 above.

8.4 The working budget for 2017/18 includes budgets totalling £642k that were carried forward from the previous year. These are generally carried forward so that they can be spent for a particular purpose that had been due to happen in 2016/17 but was delayed into 2017/18. At quarter 3 it is currently forecast that a total of £151k of the budget carried forward will not be spent in the current financial year. This relates to;

- Reported at Q1 that one carry forward budget of £20k would not be spent.
- Reported at Q2 that a further £55k of budget carried forward (relating to two earmarked projects) would not be spent.
- Reported in the month 8 revenue monitor that the carry forward budget of £13k to assist with the review of Housing Strategy would not be spent in 2017/18 and was requested to be carried forward into 2018/19.
- Reported in the month 8 revenue monitor that the carry forward budget of £25k to fund the NHDC contribution to a joint project to improve energy efficiency in residents' properties would be partially spent (£12k spend forecast) in 2017/18, with the unspent amount (£13k) requested to be carried forward into 2018/19.
- Reported in the month 8 revenue monitor that a further £18k of the total carry forward budget of £52k to fund the Economic Development Officer position would not be spent in 2017/18 and was requested to be carried forward into 2018/19.
- Legal Services Contract scanning; £6k of the carry forward budget of £20k was required to complete this project (the £14k underspend variance was included within the 'other minor variances' total in the month 8 revenue monitor).
- Parking lines and signs maintenance; £12k of the carry forward budget of £42k will be spent in 2017/18 (as detailed and explained in table 2 above).
- Waste services; only £6k of the £11k carry forward budget to fund the cost of temporary additional staffing resource will be spent in 2017/18 as the post holder has taken up a new position and will not be replaced. The remainder is within the 'other minor balances' total in table 2 above.

All other carry forward budgets are expected to be spent in 2017/18.

8.5 The revenue monitor at month 8 included a request to carry-forward £60k of area committee budget in to 2018/19. Cabinet asked for more information on this to be provided in this quarter 3 monitor. Table 3 shows that even if all the March bids were approved, there would still be £40k unallocated. Cabinet could decide that this amount should not be carried forward, and that only amounts that have been allocated but not yet paid can be carried forward. The amount carried forward in to 2017/18 (from 2016/17) was £49.5k.

Table 3- Area Committee Grant forecasts

Area Committee	Total 2017/18 budget (after 2016/17 carry-forward) £k	Grants paid as at February £k	Grants awarded but not paid £k	Bids received for March meeting £k	Amount still unallocated if all March bids approved £k
Letchworth	26.4	4.9	1.2	3.0	17.3
Hitchin	42.4	20.1	3.4	7.8	11.1
Royston	10.7	6.7	1.5	2.5	0
Southern Rural	22.3	8	3.7	5.8	4.8
Baldock	21.7	4.3	6.6	4.0	6.8
Total	123.5	44.0	16.4	23.1	40.0

- 8.6 There are 4 key corporate 'financial health' indicators identified in relation to key sources of income for the Council. Table 3 below shows the income to date and forecasts for the year. A comparison is made to the original budget to give the complete picture for the year. Each indicator is given a status of red, amber or green. A green indicator means that they are forecast to match or exceed the budgeted level of income. An amber indicator means that there is a risk that they will not meet the budgeted level of income. A red indicator means that they will not meet the budgeted level of income. Currently two indicators are green and two indicators are red.
- 8.7 The red indicator in relation to car parking fees was highlighted within the revenue monitoring report at quarter 2 and relates to the additional parking fee income anticipated from the Parking Strategy review that will not be achieved.
- 8.8 At quarter 3 the status of the land charges indicator is red. The number of searches requested to be undertaken by the authority has reduced in comparison to the prior financial year. At Quarter 3 2016/17 the number of searches requested totalled 1,384, while search numbers for the equivalent period in 2017/18 total 1,267. This is attributed to a change in housing market activity, which drives demand for personal searches. The forecast income variance of £15k is included within the 'other minor variances' total in table 2 above.

Table 4- Corporate financial health indicators

Indicator	Status	Original Budget £k	Actual income to date £k	Forecast income for the year £k	Projected Variance £k
Planning Application Fees (including fees for pre-application advice)	Green	(683)	(829)	(1,168)	(485)
Land Charges	Red	(174)	(118)	(159)	15
Car Parking Fees	Red	(1,813)	(1,320)	(1,745)	68
Parking Penalty Charge Notices	Green	(410)	(407)	(585)	(175)

FUNDING, RISK AND GENERAL FUND BALANCE

- 8.9 The Council's revenue budget is funded from the following main sources; Council Tax, New Homes Bonus, Retained Business Rates and Revenue Support Grant. The Council was notified by Central Government in February 2017 of the respective amounts of New Homes Bonus and Revenue Support Grant funding it can expect to receive in 2017/18 and has planned accordingly.
- 8.10 Council Tax and Business Rates are accounted for in the Collection Fund rather than directly in our accounts, as we also collect them on behalf of others (e.g. County Council). Each organisation has a share of the balance on the Collection Fund account. Current forecasts for 2017/18 are that there will be a surplus on our share of Council Tax of approximately £270k and a deficit on Business Rates of around £650k.
- 8.11 The Council also receives compensation in the form of a grant from Central Government for business rate reliefs introduced, which goes in to our funds rather than the Collection Fund. We are holding this amount in a reserve. Use of the amount held in reserve, currently projected to be £932k at the end of the year, will mitigate the impact on the General Fund balance in 2018/19 of the contribution to the Collection Fund to cover the Business Rates deficit recorded for 2017/18.

- 8.12 The Council is also subject to a business rates levy from Central Government as it is expected that NHDC will collect more in business rates than the baseline need determined by Central Government. The estimated levy required is currently forecast to be £378k. The payment of the levy will be funded from the grant held in reserve.
- 8.13 The estimate of retained business rates income for 2017/18 has increased by £16k at Q3. This revision follows notification from the Ministry of Housing, Communities and Local Government (MHCLG) of a revised 2017/18 tariff value, which is based on the revaluation data as at 1 April 2017. The original tariff value was calculated on draft revaluation data as at September 2016. On receipt of the final revaluation data from the Valuation Office Agency the MHCLG has adjusted the top up and tariff amounts for local authorities to reflect what the value should have been had the 1 April 2017 information been available at the time of originally calculating the 2017/18 top up and tariff figures.
- 8.14 Table 4 below summarises the impact on the projected general fund balance from the changes at quarter 3 detailed in this report.

Table 5 – Forecast General Fund impact

	Working Budget £k	Q3 Projected Outturn £k	Difference £k
Brought Forward balance (1st April 2017)	(8,235)	(8,235)	-
Projected Net Spend	16,415	16,475	60
Funding (Council Tax, Business Rates, RSG)	(15,573)	(15,589)	(16)
Contribution to Collection Fund	741	741	0
Funding from Reserves (including Business Rate Relief Grant)	(373)	(373)	0
Carried Forward balance (31st March 2018)	(7,025)	(6,981)	44

- 8.15 The minimum level of General Fund balance is determined based on known and unknown risks. Known risks are those things that we think could happen and we can forecast both a potential cost if they happen, and percentage likelihood. The notional amount is based on multiplying the cost by the potential likelihood. The notional amount for unknown risks is based on 5% of net expenditure. There is not an actual budget set aside for either of these risk types, so when they occur they are reflected as budget variances (see table 2). We monitor the level of known risks that actually happen, as it highlights whether there might be further variances. This would be likely if a number of risks come to fruition during the early part of the year. We also use this monitoring to inform the assessment of risks in future years. The notional amount calculated at the start of the year for known risks was £795k, and by the end of quarter three a total of £385k have come to fruition. The four identified risks realised in the third quarter relate to;
- Cost of specialist external legal advice in relation to an appeal made against a Council Planning Committee decision (included within 'other minor balances' in table 7 of the 2018/19 budget report). £15k
 - Further delay to the opening of the North Herts Museum and Cafe hindering the achievement of the operating surplus anticipated from the Community facility, as detailed in table 2. £58k
 - The cost of specialist advice in relation to a gypsy and traveller planning appeal case (included within 'other minor balances' in table 2). £10k

Table 6 – Known financial risks

	£'000
Original allowance for known financial risks	795
Known financial risks realised in Quarter 1	(144)
Known financial risks realised in Quarter 2	(158)
Known financial risks realised in Quarter 3	(83)
Remaining allowance for known financial risks	410

9. LEGAL IMPLICATIONS

- 9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. Specifically 5.6.8 of Cabinet's terms of reference state that it has remit "*To monitor quarterly revenue expenditure and agree adjustments within the overall budgetary framework*". By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget and to maintain a prudent balance.

10. FINANCIAL IMPLICATIONS

- 10.1 Members have been advised of any variations from the budgets in the body of this report and of any action taken by officers.

11. RISK IMPLICATIONS

- 11.1 As outlined in the body of the report. The process of quarterly monitoring to Cabinet is a control mechanism to help to mitigate the risk of an unplanned overspend of the overall Council budget.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 For any individual new revenue investment proposal of £50k or more, or affecting more than two wards, a brief equality analysis is required to be carried out to demonstrate that the authority has taken full account of any negative, or positive, equalities implications; this will take place following agreement of the investment.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and "go local" policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 Although there are no direct human resource implications at this stage, care is taken to ensure that where efficiency proposals or service reviews may effect staff, appropriate communication and consultation is provided in line with HR policy.

15. APPENDICES

15.1 None.

16. CONTACT OFFICERS

16.1 Antonio Ciampa, Accountancy Manager
antonio.ciampa@north-herts.gov.uk; ext 4566

16.2 Ian Couper, Head of Finance, Performance and Asset Management
ian.couper@north-herts.gov.uk; ext 4243

16.3 Kerry Shorrocks, Corporate Human Resources Manager
kerry.shorrocks@north-herts.gov.uk; ext 4224

16.4 Jeanette Thompson, Acting Corporate Legal Manager
jeanette.thompson@north-herts.gov.uk; ext 4370

16.5 Reuben Ayavoo, Senior Policy Officer
reuben.ayavoo@north-herts.gov.uk; ext 4212

17. BACKGROUND PAPERS

17.1 Budget Estimate Book 2017/18.

17.2 Statement of Accounts 2016/17.

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FINANCE, AUDIT & RISK COMMITTEE

21 MARCH 2018

PART 1 – PUBLIC DOCUMENT

AGENDA ITEM No.

14

The following is the report to be considered by the Cabinet at its meeting to be held on 23 January 2018. The Committee is invited to comment on the report.

TITLE OF REPORT: THIRD QUARTER CAPITAL MONITORING 2017/18

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: CLLR JULIAN CUNNINGHAM

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To update Cabinet on progress with delivering the capital programme for 2017/18, as at the end of December 2017, and indicating its impact upon the approved capital programme for 2018/19 - 2021/22. The current estimate is a decrease in spend in 2017/18 of £4.167million from that reported when the Capital Programme for 2018/19-2021/22 was approved by Council in February 2018, and an increase in spend in future years of £4.139 million. The most significant individual changes are the inclusion of the purchase of kitchen caddies to support the new weekly collection of food waste service from May 2018 and the re-profiling of the capital expenditure allocations for new waste vehicles and housing investment into 2018/19.

2. RECOMMENDATIONS

- 2.1 That Cabinet notes the forecast expenditure of **£10.903million** in 2017/18 on the capital programme, paragraph 8.2 refers, and approves the changes detailed in table 3 which resulted in a net decrease on the working estimate of **£0.028million**.
- 2.2 That Cabinet approves the changes to the capital programme for 2018/19 onwards as a result of the revised timetable of schemes detailed in table 2, increasing the estimated spend in 2018/19 by **£4.139million** (re-profiled from 2017/18).
- 2.3 That Cabinet notes the position of the availability of capital resources, as detailed in table 4, and the requirement to keep the capital programme under review for affordability.

3. REASONS FOR RECOMMENDATIONS

- 3.1 Cabinet is required to approve revisions to the capital programme.
- 3.2 Cabinet is required to ensure that the capital programme is fully funded.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 Options for capital investment are considered as part of the Corporate Business Planning process.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 Consultation on the capital expenditure report is not required. Members will be aware that consultation is incorporated into project plans of individual capital schemes as they are progressed.

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 2nd February 2018.

7. BACKGROUND

- 7.1 In February 2017, Council approved the capital programme for 2017/18 to 2020/21. This was subsequently amended by reprogramming from 2016/17 and re-profiling at the first quarter and second quarter.
- 7.2 The Medium Term Financial Strategy for 2017 to 2022 confirmed that the Council will seek opportunities to utilise capital funding (including set aside receipts) for invest to save schemes and proposals that generate higher rates of return than standard treasury investments. This is one way the Council will allocate resources to support organisational transformation that will reduce revenue expenditure.

8. RELEVANT CONSIDERATIONS

Capital Programme 2017/18

- 8.1 Summaries of the capital programme by Council priority and service are shown in appendix A together with the overall funding analysis and projected availability of capital funding balances (set aside and capital receipts). The full programme is detailed in Appendix B and shows the revised costs to date, together with the expected spend from 2017/18 to 2021/22 and the funding source for each capital scheme.
- 8.2 Capital expenditure for 2017/18 is estimated to be **£10.903million**. This is a reduction of **£4.167million** on that forecast when the capital programme for 2018-22 was recommended by Cabinet to Council for approval in February (reported to Cabinet on 23 January 2018). The decrease in spend in 2017/18 is largely due to re-profiling of spend into future years. Table 1 below details changes to capital programme.

Table 1- Current Capital Estimates

	2017/18 £M	2018/19 £M	2019/20 to 2021/22 £M
Original Estimates approved by Full Council February 2017	8.465	4.788	3.197
Changes approved by Cabinet in 2016/17 Capital Outturn report	12.125	-0.365	0.025
Revised Capital estimates at start of 2017/18	20.590	4.423	3.222
Changes approved by Cabinet at 1 st Quarter	-5.451	5.234	0

	2017/18 £M	2018/19 £M	2019/20 to 2021/22 £M
Changes approved by Cabinet at 2nd Quarter	-0.619	0.923	0
Revised Capital Programme 2018 – 2022 approved by Council	0.550	1.930	1.343
Capital Estimates at Q3	15.070	12.510	4.565
Changes at Q3 detailed in this report	-4.167	4.139	0.000
Current Capital Estimates	10.903	16.649	4.565

8.3 Table 2 lists changes to the 2017/18 Capital Programme and the impact in subsequent years:

Table 2: Scheme Timetable Revision:

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2018/19 onwards £'000
NH Museum & Community Facility	146	101	-45	The remaining fit out will impact on 14/15 Brand street premises, so the works have been put on hold until premises arrangements have been resolved.	45
St Mary's car park. Structural repairs to steps	35	0	-35	A product is being tested which seems to be working well. Any further work will be deferred until fully tested.	35
Storage Facilities	40	7	-33	Scoping works are underway with a view to carrying out the installation of a mezzanine floor in 2018/19.	33
Waste and Street Cleansing Vehicles	3,600	0	-3,600	The Waste contractor will procure the vehicles themselves, however the budget is still likely to be required to cover the capitalised cost of the vehicles used in the contract.	3,600
Provide housing at market rents	200	0	-200	A business case for a property company is to be determined by the Cabinet Sub Committee. The cost of any capital works will only happen once the company is established, which requires Cabinet approval	200

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Reason for Difference	Estimated impact on 2018/19 onwards £'000
Hitchin Outdoor Pool Showers and Toilets	75	0	-75	The lowest tender price submitted for the Hitchin and Letchworth sites was £30k greater than the total budget. The project will be deferred to the new year so value engineering can be done in this year to determine if the costs can be reduced.	75
Letchworth Outdoor Pool Showers and Toilets	75	0	-75		75
Total Minor (under £25k) slippage on other projects			-76		76
Total Revision to Budget Profile			-4,139		4,139

8.4 There are also changes to the overall costs of schemes in 2017/18. These changes total a net decrease of £0.028million and are detailed in Table 3:

Table 3: Changes to Capital Schemes Commencing in 2017/18:

(Key: - = reduction in capital expenditure, + = increase in capital expenditure)

Scheme	2017/18 Working Budget £'000	2017/18 Forecast Spend £'000	Difference £'000	Comments
Purchase of Kitchen Caddies	0	132	132	Purchase of Kitchen Caddy Liners was agreed at Full Council on 23.11.17
Letchworth Multi Storey Safety Edge Protection Fencing	120	0	-120	A structural survey confirmed that the walls are not strong enough to have fencing attached to them.
Hitchin & Royston Fitness Equipment	520	490	-30	The final tendered price for the equipment and associated works was less than the original price quoted.
Other minor changes			-10	
Total revision to scheme spend			-28	

Capital Programme 2017/18 Funding onwards

8.5 Table 4 below shows how the Council will fund the 2017/18 capital programme.

Table 4: Funding the Capital Programme:

	2017/18 Balance at start of year	2017/18 Forecast Additions	2017/18 Estimated Use of Funding	2017/18 Forecast Balance at end of year
	£M	£M	£M	£M
Useable Capital Receipts	3.221	1.200	(1.865)	2.556
Set-aside Receipts	16.642		(7.620)	9.022
<i>S106 receipts</i>			(0.328)	
<i>Other third party grants and contributions</i>			(1.090)	
Total	19.863	1.200	(10.903)	11.578

- 8.6 The availability of third party contributions and grants to fund capital investment is continuously sought in order to reduce pressure on the Council's available capital receipts and allow for further investment.

9. LEGAL IMPLICATIONS

- 9.1 Cabinet's terms of reference specifically include "to monitor expenditure on the capital programme". The Cabinet also has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council. By considering monitoring reports throughout the financial year Cabinet is able to make informed recommendations on the budget to Council. The Council is under a duty to maintain a balanced budget.
- 9.2 Asset disposals must be handled in accordance with the Council's Contract Procurement Rules.

10. FINANCIAL IMPLICATIONS

- 10.1 The main financial implications are covered in section 8 of the report.
- 10.2 The Authority operates a tolerance of at least 10% on capital projects (dependent on value) and on this basis over the duration of the programme it should be anticipated that the total spend over the period could be around £3.2million higher than the estimated £32.117million.
- 10.3 The capital programme will need to remain under close review due to the limited availability of capital resources and the affordability in the general fund of the cost of using the Council's capital receipts. When capital receipts are used and not replaced the availability of cash for investment reduces. Consequently interest income from investments reduces. A cash balance of £1.0million currently earns the Authority approximately £8k per year in interest. The general fund estimates are routinely updated to reflect the reduced income from investments as cash balances reduce. When the Capital Financing Requirement (CFR) reaches zero the Council will need to consider borrowing for further capital spend and will need to start charging a minimum revenue provision to the general fund for the cost of capital. The CFR at the 31 March 2017 was negative £17million.
- 10.4 The Council also aims to ensure that the level of planned capital spending in any one-year matches the capacity of the organisation to deliver the schemes to ensure that the impact on the revenue budget of loss of cash-flow investment income is minimised.

11. RISK IMPLICATIONS

- 11.1 The inherent risks in undertaking a capital project are managed by the project manager of each individual scheme. These are recorded on a project risk log which will be considered by the Project Board (if applicable). The key risks arising from the project may be recorded on Pentana (the Council's Performance & Risk management software). Some of the major capital projects have been included as the Council's Top Risks (e.g. North Hertfordshire Museum). The Top Risks are monitored by the Finance, Audit and Risk Committee.
- 11.2 Cabinet receives quarterly reports on project progress and forecast spend

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 For any individual new capital investment proposal of £50k or more, or affecting more than two wards, an equality analysis is required to be carried out; this will take place following Cabinet agreement of the investment. A sound management of funds ensures that the Council has sufficient monies to support the improvement of district facilities.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12. Any individual capital scheme which is subject to the award of a public service contract will be evaluated in terms of its social value through the Council's procurement processes.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource implications.

15. APPENDICES

- 15.1 Appendix A - Capital Programme Summary 2017/18 onwards.
Appendix B - Capital Programme Detail including Funding 2017/18 onwards.

16. CONTACT OFFICERS

- 16.1 Report Writer Antonio Ciampa, Accountancy Manager, Tel 474566, email, antonio.ciampa@north-herts.gov.uk
- Contributor Ian Couper, Head of Finance, Performance and Asset Management, Tel 474243, email ian.couper@north-herts.gov.uk
- Dean Fury, Corporate Support Accountant, Tel 474509, dean.fury@north-herts.gov.uk

Reuben Ayavoo, Corporate Policy officer, Tel 47212, email,
reuben.ayavoo@north-herts.gov.uk

17. BACKGROUND PAPERS

17.1 2017/18 Budget Estimates Book.

<https://www.north-herts.gov.uk/sites/northherts-cms/files/Budget%20Estimates%20Book%202017-18%20Final%20for%20internet.pdf>

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By Council Priority

	2017/18 Working Budget £'000	2017/18 Revised Budget £'000	Movement £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Priority							
Attractive & Thriving	3,529	3,146	-383	3,831	0	300	0
Prosper & Protect	1,076	817	-259	4,704	150	0	0
Responsive & Efficient	10,465	6,940	-3,525	8,114	1,678	1,125	1,312
Grand Total	15,070	10,903	-4,167	16,649	1,828	1,425	1,312

By Service Group

	2017/18 Working Budget £'000	2017/18 Revised Budget £'000	Movement £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
Service Group							
Advances & Cash Incentives	0	0	0	1,096	0	0	0
Asset Management	5,753	5,511	-242	3,767	150	0	0
CCTV	35	22	-13	0	0	0	0
Community Services	371	371	0	636	250	120	0
Computer Software and Equipment	290	295	5	111	538	115	507
Corporate Items	11	11	0	2,500	0	0	0
Growth Fund Projects	0	0	0	713	0	0	0
Leisure Facilities	3,252	3,026	-226	2,403	85	385	0
Museum & Arts	699	653	-45	45	0	0	0
Parking	430	252	-178	974	0	0	0
Renovation & Reinstatement Grant Expenditure	630	630	0	805	805	805	805
Waste Collection	3,600	132	-3,468	3,600	0	0	0
Grand Total	15,070	10,903	-4,167	16,649	1,828	1,425	1,312

Capital Funding Source

	2017/18 Working Budget £'000	2017/18 Revised Budget £'000	Movement £'000	2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Funding £'000
Funding Source							
Government Grant	600	600	0	1,508	745	745	745
Revenue Contribution / Borrowing	0	0	0	540	0	0	0
Other Capital Contributions	520	490	-30	163	0	250	0
S106 Funding	347	328	-19	360	0	37	0
Capital Receipt	2,106	1,865	-241	5,056	1,083	393	567
Drawdown of cash investments	11,497	7,620	-3,877	9,022	0	0	0
Grand Total	15,070	10,903	-4,167	16,649	1,828	1,425	1,312

Capital Receipt Analysis

	2017/18 Working Budget £'000	2017/18 Revised Funding £'000		2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
B/fwd Capital Receipt Funding	-3,221	-3,221		-2,556	0	-2,917	-3,274
Add: Capital Receipts Received in Year	-1,200	-1,200	0	-2,500	-4,000	-750	-1,250
Less: Capital Receipts Used in Year	2,106	1,865	-241	5,056	1,083	393	567
C/Fwd Capital Receipt Funding	-2,315	-2,556	-241	0	-2,917	-3,274	-3,957

Cash Investments Analysis (set-aside receipts funding)

	2017/18 Working Budget £'000	2017/18 Revised Funding £'000		2018/19 Estimate £'000	2019/20 Estimate £'000	2020/21 Estimate £'000	2021/22 Estimate £'000
B/fwd Cash Investments	-16,642	-16,642		-9,022	0	0	0
Drawdown of cash investments	11,497	7,620	-3,877	9,022	0	0	0
C/Fwd Cash Investments	-5,145	-9,022	-3,877	0	0	0	0

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Project	Funding Source	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £
40 KVA UPS Device or Battery Replacement								
	Capital Receipt	0	0	0	0	7,000	0	0
	Drawdown of cash investments	0	0	0	0	0	0	0
40 KVA UPS Device or Battery Replacement Total		0	0	0	0	7,000	0	0
Additional PC's - Support Home Working/OAP								
	Capital Receipt	0	0	0	0	13,000	0	0
	Drawdown of cash investments	13,000	13,000	0	0	0	0	0
Additional PC's - Support Home Working/OAP Total		13,000	13,000	0	0	13,000	0	0
Additional Storage								
	Capital Receipt	0	0	0	0	13,000	0	0
	Drawdown of cash investments	12,000	12,000	0	0	0	0	0
Additional Storage Total		12,000	12,000	0	0	13,000	0	0
Alarm Receiving Centre (ARD) Upgrade								
	Capital Receipt	30,000	30,000	0	0	0	0	0
Alarm Receiving Centre (ARD) Upgrade Total		30,000	30,000	0	0	0	0	0
Alternative to safeword tokens for staff/members working remotely								
	Capital Receipt	0	0	0	0	8,000	0	0
Alternative to safeword tokens for staff/members working remotely Total		0	0	0	0	8,000	0	0
Area Visioning								
	Drawdown of cash investments	26,400	26,400	0	0	0	0	0
Area Visioning Total		26,400	26,400	0	0	0	0	0
Back-up Diesel 40 KVA Generator (DCO)								
	Capital Receipt	0	0	0	0	20,000	0	0
Back-up Diesel 40 KVA Generator (DCO) Total		0	0	0	0	20,000	0	0
Baldock Road Recreation Grounds								
	Capital Receipt	0	0	0	0	0	0	0
Baldock Road Recreation Grounds Total		0	0	0	0	0	0	0
Baldock Town Hall project								
	Drawdown of cash investments	74,500	74,500	0	0	0	0	0
	S106 Funding	2,300	2,300	0	0	0	0	0
Baldock Town Hall project Total		76,800	76,800	0	0	0	0	0
Bancroft Gardens Play Area								
	Capital Receipt	2,200	0	-2,200	2,200	0	0	0
	S106 Funding	51,700	45,900	-5,800	5,800	0	0	0
Bancroft Gardens Play Area Total		53,900	45,900	-8,000	8,000	0	0	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA)								
	Capital Receipt	0	0	0	24,100	0	0	0
	Other Capital Contributions	0	0	0	80,000	0	0	0
	S106 Funding	0	0	0	65,900	0	0	0
Bancroft Recreation Ground, Hitchin, Multi Use Games Area (MUGA) Total		0	0	0	170,000	0	0	0
Burymead Road - new roof waterproofing system								
	Drawdown of cash investments	2,000	2,000	0	0	0	0	0
Burymead Road - new roof waterproofing system Total		2,000	2,000	0	0	0	0	0
Butts Close renovation, Hitchin								
	Capital Receipt	0	0	0	0	0	0	0
	S106 Funding	0	0	0	0	0	0	0
Butts Close renovation, Hitchin Total		0	0	0	0	0	0	0
Cabinet Switches - 4 Floors								
	Capital Receipt	0	0	0	0	0	0	18,000
	Drawdown of cash investments	15,000	15,000	0	0	0	0	0
Cabinet Switches - 4 Floors Total		15,000	15,000	0	0	0	0	18,000
Cadcorp Local Knowledge & Notice Board Software								
	Capital Receipt	0	0	0	13,500	0	0	0
Cadcorp Local Knowledge & Notice Board Software Total		0	0	0	13,500	0	0	0
Capitalised Pension Fund Contribution								
	Drawdown of cash investments	0	0	0	2,500,000	0	0	0
Capitalised Pension Fund Contribution Total		0	0	0	2,500,000	0	0	0
Careline Call Handling Hardware and Software								
	Capital Receipt	4,600	4,600	0	0	0	0	0
Careline Call Handling Hardware and Software Total		4,600	4,600	0	0	0	0	0
Careline Community Alarms								
	Drawdown of cash investments	0	0	0	0	0	0	0
Careline Community Alarms Total		0	0	0	0	0	0	0
Investment in CCTV Equipment								
	Capital Receipt	0	0	0	0	0	0	0
	Drawdown of cash investments	0	0	0	0	0	0	0
Investment in CCTV Equipment Total		0	0	0	0	0	0	0
Channel shift - processing of housing register applications								
	Drawdown of cash investments	20,000	20,000	0	20,000	0	0	0
Channel shift - processing of housing register applications Total		20,000	20,000	0	20,000	0	0	0
Construction of pathway and roadway, Wilbury Hills Cemetery, Letchworth								
	Capital Receipt	0	0	0	35,000	0	0	0
Construction of pathway and roadway, Wilbury Hills Cemetery, Letchworth Total		0	0	0	35,000	0	0	0
Core Backbone Switches								
	Capital Receipt	0	0	0	0	20,000	0	0
	Drawdown of cash investments	0	0	0	0	0	0	0
Core Backbone Switches Total		0	0	0	0	20,000	0	0
Council property improvements following condition surveys								
	Capital Receipt	65,000	65,000	0	315,000	0	0	0

Project	Funding Source	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £
	Drawdown of cash investments	0	0	0	19,600	0	0	0
	Revenue Contribution / Borrowing	0	0	0	540,400	0	0	0
Council property improvements following condition surveys Total		65,000	65,000	0	875,000	0	0	0
Customer Relationship Manager software								
	Capital Receipt	0	0	0	0	0	0	0
Customer Relationship Manager software Total		0	0	0	0	0	0	0
Customer Self Serve Module								
	Capital Receipt	3,000	3,000	0	0	0	0	0
Customer Self Serve Module Total		3,000	3,000	0	0	0	0	0
Cyber Attacks - Events Monitoring Software Solution								
	Capital Receipt	0	0	0	30,000	0	0	0
Cyber Attacks - Events Monitoring Software Solution Total		0	0	0	30,000	0	0	0
Cycle Strategy implementation (GAF)								
	Government Grant	0	0	0	278,000	0	0	0
Cycle Strategy implementation (GAF) Total		0	0	0	278,000	0	0	0
Decommissioning of Pavilions								
	Capital Receipt	0	0	0	120,000	0	0	0
Decommissioning of Pavilions Total		0	0	0	120,000	0	0	0
Decommissioning of Play Areas								
	Capital Receipt	0	0	0	130,000	0	0	0
Decommissioning of Play Areas Total		0	0	0	130,000	0	0	0
Dell Servers								
	Capital Receipt	0	0	0	0	65,000	0	0
Dell Servers Total		0	0	0	0	65,000	0	0
Demolish 4 disused tennis courts and landscape to grass and planted area at Bancroft Recreation Ground, Hitchin								
	Capital Receipt	0	0	0	0	0	0	0
	Drawdown of cash investments	0	0	0	0	0	0	0
Demolish 4 disused tennis courts and landscape to grass and planted area at Bancroft Recreation Ground, Hitchin Total		0	0	0	0	0	0	0
Demolition of Bancroft Hall								
	Drawdown of cash investments	600	600	0	0	0	0	0
Demolition of Bancroft Hall Total		600	600	0	0	0	0	0
Dog / Litter Bins								
	Capital Receipt	40,000	40,000	0	0	0	0	0
Dog / Litter Bins Total		40,000	40,000	0	0	0	0	0
Disaster Recovery Set Up								
	Capital Receipt	0	0	0	0	25,000	0	0
	Drawdown of cash investments	47,400	47,400	0	0	0	0	0
Disaster Recovery Set Up Total		47,400	47,400	0	0	25,000	0	0
Microsoft Enterprise Agreement								
	Capital Receipt	0	0	0	0	199,600	0	450,000
	Drawdown of cash investments	0	0	0	0	0	0	0
Microsoft Enterprise Agreement Total		0	0	0	0	199,600	0	450,000
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract								
	Capital Receipt	29,000	29,000	0	0	0	39,000	0
	Drawdown of cash investments	0	0	0	0	0	0	0
Email / Web Gateway with SPAM Filtering Software Solution - Licence 3 Year Contract Total		29,000	29,000	0	0	0	39,000	0
Email Encryption Software Solution								
	Capital Receipt	0	0	0	0	0	45,000	0
	Drawdown of cash investments	0	0	0	0	0	0	0
Email Encryption Software Solution Total		0	0	0	0	0	45,000	0
Energy efficiency measures								
	Drawdown of cash investments	60,000	51,500	-8,500	8,500	0	0	0
Energy efficiency measures Total		60,000	51,500	-8,500	8,500	0	0	0
Financial System upgrade - E-series								
	Drawdown of cash investments	0	5,400	5,400	0	0	0	0
Financial System upgrade - E-series Total		0	5,400	5,400	0	0	0	0
Grange Recreation Ground Improvements								
	Capital Receipt	0	0	0	0	0	0	0
	S106 Funding	0	0	0	0	0	0	0
Grange Recreation Ground Improvements Total		0	0	0	0	0	0	0
Food Waste Caddies								
	Drawdown of cash investments	0	132,000	132,000	0	0	0	0
Food Waste Caddies Total		0	132,000	132,000	0	0	0	0
Green Infrastructure implementation (GAF)								
	Government Grant	0	0	0	185,000	0	0	0
Green Infrastructure implementation (GAF) Total		0	0	0	185,000	0	0	0
Hitchin & Royston Fitness Equipment								
	Other Capital Contributions	520,000	490,000	-30,000	0	0	0	0
Hitchin & Royston Fitness Equipment Total		520,000	490,000	-30,000	0	0	0	0
Lairage Multi Storey Safety and Equalities Act improvements								
	Drawdown of cash investments	40,000	40,000	0	0	0	0	0
Lairage Multi Storey Safety and Equalities Act improvements Total		40,000	40,000	0	0	0	0	0
Hitchin Outdoor Pool Showers and Toilets								
	Drawdown of cash investments	75,000	0	-75,000	75,000	0	0	0
Hitchin Outdoor Pool Showers and Toilets Total		75,000	0	-75,000	75,000	0	0	0
Hitchin Swim Centre - small paddling pool resurfacing								
	Drawdown of cash investments	0	0	0	0	0	0	0
Hitchin Swim Centre - small paddling pool resurfacing Total		0	0	0	0	0	0	0
Hitchin Swimming Centre Lift								
	Drawdown of cash investments	100,000	100,000	0	0	0	0	0
Hitchin Swimming Centre Lift Total		100,000	100,000	0	0	0	0	0
Hitchin Swimming Pool Car Park extension								

Project	Funding Source	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £
	Capital Receipt	50,000	28,200	-21,800	497,700	0	0	0
Hitchin Swimming Pool Car Park extension Total		50,000	28,200	-21,800	497,700	0	0	0
Improvements to fixing systems to glazed walkway, Lairage Car Park, Hitchin								
	Drawdown of cash investments	0	0	0	0	0	0	0
Improvements to fixing systems to glazed walkway, Lairage Car Park, Hitchin Total		0	0	0	0	0	0	0
Infrastructure: Back-Up Diesel 40 KVA Generator DCO								
	Capital Receipt	0	0	0	0	0	0	0
Infrastructure: Back-Up Diesel 40 KVA Generator DCO Total		0	0	0	0	0	0	0
Installation of trial on-street charging (GAF)								
	Government Grant	0	0	0	50,000	0	0	0
Installation of trial on-street charging (GAF) Total		0	0	0	50,000	0	0	0
Introduce a Traffic Regulation Order and Car park ticket machines into the 2 car parks at Norton Common								
	Capital Receipt	0	0	0	0	0	0	0
Introduce a Traffic Regulation Order and Car park ticket machines into the 2 car parks at Norton Common Total		0	0	0	0	0	0	0
Jackmans Central Play Area Renovation								
	Capital Receipt	75,000	75,000	0	0	0	0	0
Jackmans Central Play Area Renovation Total		75,000	75,000	0	0	0	0	0
Jackmans Creamery, Letchworth								
	Capital Receipt	0	0	0	0	0	0	0
Jackmans Creamery, Letchworth Total		0	0	0	0	0	0	0
John Barker Place, Hitchin								
	Drawdown of cash investments	0	0	0	825,600	0	0	0
	S106 Funding	0	0	0	270,400	0	0	0
John Barker Place, Hitchin Total		0	0	0	1,096,000	0	0	0
Lairage Multi-Storey Car Park - Structural wall repairs								
	Drawdown of cash investments	5,700	5,700	0	120,000	0	0	0
Lairage Multi-Storey Car Park - Structural wall repairs Total		5,700	5,700	0	120,000	0	0	0
Laptops - Refresh Programme								
	Capital Receipt	0	0	0	6,000	0	6,000	0
Laptops - Refresh Programme Total		0	0	0	6,000	0	6,000	0
Letchworth Multi Storey Enhancements								
	Capital Receipt	0	0	0	0	0	0	0
Letchworth Multi Storey Enhancements Total		0	0	0	0	0	0	0
Letchworth Multi Storey Safety Edge Protection Fencing								
	Drawdown of cash investments	120,000	0	-120,000	0	0	0	0
Letchworth Multi Storey Safety Edge Protection Fencing Total		120,000	0	-120,000	0	0	0	0
Letchworth Multi Storey Structural Investigations								
	Drawdown of cash investments	0	0	0	0	0	0	0
Letchworth Multi Storey Structural Investigations Total		0	0	0	0	0	0	0
Letchworth Multi_storey Car Park - parapet walls, soffit & decoration								
	Capital Receipt	146,500	146,500	0	0	0	0	0
Letchworth Multi_storey Car Park - parapet walls, soffit & decoration Total		146,500	146,500	0	0	0	0	0
Letchworth multi-storey car park - lighting								
	Drawdown of cash investments	22,700	0	-22,700	22,700	0	0	0
Letchworth multi-storey car park - lighting Total		22,700	0	-22,700	22,700	0	0	0
Letchworth Outdoor Pool safety surface								
	Capital Receipt	0	0	0	60,000	0	0	0
Letchworth Outdoor Pool safety surface Total		0	0	0	60,000	0	0	0
Letchworth Outdoor Pool Showers and Toilets								
	Drawdown of cash investments	75,000	0	-75,000	75,000	0	0	0
Letchworth Outdoor Pool Showers and Toilets Total		75,000	0	-75,000	75,000	0	0	0
Making Good Trip Hazards, Hitchin Town Centre								
	Drawdown of cash investments	0	0	0	0	0	0	0
Making Good Trip Hazards, Hitchin Town Centre Total		0	0	0	0	0	0	0
Mandatory Disabled Facility Grants								
	Capital Receipt	0	0	0	0	0	0	0
	Drawdown of cash investments	0	0	0	0	0	0	0
	Government Grant	600,000	600,000	0	745,000	745,000	745,000	745,000
Mandatory Disabled Facility Grants Total		600,000	600,000	0	745,000	745,000	745,000	745,000
New Blade Enclosure								
	Capital Receipt	0	0	0	0	32,000	0	0
New Blade Enclosure Total		0	0	0	0	32,000	0	0
NH Museum & Community Facility								
	Drawdown of cash investments	146,600	101,300	-45,300	45,300	0	0	0
	Other Capital Contributions	0	0	0	0	0	0	0
NH Museum & Community Facility Total		146,600	101,300	-45,300	45,300	0	0	0
North Herts Leisure Centre Development								
	Capital Receipt	1,024,900	892,400	-132,500	0	0	0	0
	Drawdown of cash investments	831,740	964,240	132,500	0	0	0	0
	S106 Funding	65,560	65,560	0	0	0	0	0
North Herts Leisure Centre Development Total		1,922,200	1,922,200	0	0	0	0	0
Norton Common Wheeled Sports improvements								
	S106 Funding	159,000	146,200	-12,800	12,800	0	0	0
Norton Common Wheeled Sports improvements Total		159,000	146,200	-12,800	12,800	0	0	0
Off Street Car Parks resurfacing and enhancement								
	Capital Receipt	60,000	60,000	0	91,200	0	0	0

Project	Funding Source	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £
Off Street Car Parks resurfacing and enhancement Total		60,000	60,000	0	91,200	0	0	0
PC Refresh Programme								
	Capital Receipt	0	0	0	17,000	17,000	17,000	17,000
	Drawdown of cash investments	17,000	17,000	0	0	0	0	0
PC Refresh Programme Total		17,000	17,000	0	17,000	17,000	17,000	17,000
Permit gateway Citizen - to enable customers to renew permits on line								
	Capital Receipt	10,700	10,700	0	0	0	0	0
Permit gateway Citizen - to enable customers to renew permits on line Total		10,700	10,700	0	0	0	0	0
Pool filter refurb and UV system at North Herts Leisure Centre								
	Drawdown of cash investments	0	0	0	0	0	0	0
Pool filter refurb and UV system at North Herts Leisure Centre Total		0	0	0	0	0	0	0
Premises compliance enhancements								
	Drawdown of cash investments	0	0	0	0	0	0	0
Premises compliance enhancements Total		0	0	0	0	0	0	0
Private Sector Grants								
	Capital Receipt	30,000	30,000	0	60,000	60,000	60,000	60,000
	Drawdown of cash investments	0	0	0	0	0	0	0
Private Sector Grants Total		30,000	30,000	0	60,000	60,000	60,000	60,000
Provide housing at market rents								
	Capital Receipt	0	0	0	2,150,000	150,000	0	0
	Drawdown of cash investments	200,000	0	-200,000	700,000	0	0	0
Provide housing at market rents Total		200,000	0	-200,000	2,850,000	150,000	0	0
Purchase of 14 & 15 Brand Street								
	Drawdown of cash investments	550,000	550,000	0	0	0	0	0
Purchase of 14 & 15 Brand Street Total		550,000	550,000	0	0	0	0	0
Recording of Council Meetings								
	Capital Receipt	64,000	64,000	0	0	0	0	0
Recording of Council Meetings Total		64,000	64,000	0	0	0	0	0
Refurbishment and improvement of community facilities								
	Capital Receipt	200,000	200,000	0	636,000	250,000	120,000	0
	Drawdown of cash investments	0	0	0	0	0	0	0
Refurbishment and improvement of community facilities Total		200,000	200,000	0	636,000	250,000	120,000	0
Refurbishment of DCO								
	Drawdown of cash investments	5,268,000	5,268,000	0	0	0	0	0
Refurbishment of DCO Total		5,268,000	5,268,000	0	0	0	0	0
Refurbishment of Harkness Court								
	Capital Receipt	0	0	0	0	0	0	0
Refurbishment of Harkness Court Total		0	0	0	0	0	0	0
Refurbishment of lifts at Lairage Car Park								
	Capital Receipt	0	0	0	360,000	0	0	0
Refurbishment of lifts at Lairage Car Park Total		0	0	0	360,000	0	0	0
Relay concrete slabs that surround the Hitchin outdoor pool								
	Capital Receipt	35,400	32,000	-3,400	1,500	0	0	0
Relay concrete slabs that surround the Hitchin outdoor pool Total		35,400	32,000	-3,400	1,500	0	0	0
Renew pathways at Bancroft Recreation Ground, Hitchin								
	Capital Receipt	50,000	50,000	0	0	0	0	0
Renew pathways at Bancroft Recreation Ground, Hitchin Total		50,000	50,000	0	0	0	0	0
Renovate play area Howard Park, Letchworth								
	Capital Receipt	0	0	0	0	0	75,000	0
Renovate play area Howard Park, Letchworth Total		0	0	0	0	0	75,000	0
Renovate play area King George V Recreation Ground, Hitchin								
	Capital Receipt	0	0	0	0	75,000	0	0
Renovate play area King George V Recreation Ground, Hitchin Total		0	0	0	0	75,000	0	0
Renovate play area, District Park, Gt. Ashby								
	Capital Receipt	0	0	0	75,000	0	0	0
Renovate play area, District Park, Gt. Ashby Total		0	0	0	75,000	0	0	0
Replace and enhance lighting at St Mary's Car Park								
	Capital Receipt	0	0	0	60,000	0	0	0
Replace and enhance lighting at St Mary's Car Park Total		0	0	0	60,000	0	0	0
Replace items of equipment, Brook View, Hitchin								
	Capital Receipt	10,000	10,000	0	0	0	0	0
Replace items of equipment, Brook View, Hitchin Total		10,000	10,000	0	0	0	0	0
Replace items of play equipment Holroyd Cres, Baldock								
	Capital Receipt	0	0	0	0	0	10,000	0
Replace items of play equipment Holroyd Cres, Baldock Total		0	0	0	0	0	10,000	0
Replace items of play equipment Wilbury Recreation Ground, Letchworth								
	Capital Receipt	0	0	0	0	10,000	0	0
Replace items of play equipment Wilbury Recreation Ground, Letchworth Total		0	0	0	0	10,000	0	0
Replace items of play equipment, Chiltern Road, Baldock								
	Capital Receipt	0	0	0	10,000	0	0	0
Replace items of play equipment, Chiltern Road, Baldock Total		0	0	0	10,000	0	0	0

Project	Funding Source	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £
Replace main pool grating and overflow gullies at Hitchin Swim Centre	Capital Receipt	0	0	0	0	0	0	0
Replace main pool grating and overflow gullies at Hitchin Swim Centre Total		0	0	0	0	0	0	0
Replace seating at Hitchin Swimming Centre	Drawdown of cash investments	0	0	0	0	0	0	0
Replace seating at Hitchin Swimming Centre Total		0	0	0	0	0	0	0
Replacement of neighbourhood CCTV equipment	Capital Receipt	35,000	21,700	-13,300	0	0	0	0
Replacement of neighbourhood CCTV equipment Total		35,000	21,700	-13,300	0	0	0	0
Replacement of Walsworth Common Access Bridge	Drawdown of cash investments	120,000	120,000	0	0	0	0	0
Replacement of Walsworth Common Access Bridge Total		120,000	120,000	0	0	0	0	0
Replacement SAN	Capital Receipt	0	0	0	0	110,000	0	0
Replacement SAN Total		0	0	0	0	110,000	0	0
Royston Civic Centre Site redevelopment (GAF)	Government Grant	0	0	0	0	0	0	0
Royston Civic Centre Site redevelopment (GAF) Total		0	0	0	0	0	0	0
Royston Leisure Centre extension	Drawdown of cash investments	0	0		1,000,000	0	0	0
Royston Leisure Centre extension Total		0	0	0	1,000,000	0	0	0
Rural Community Halls Grant Scheme	Other Capital Contributions	0	0	0	0	0	0	0
Rural Community Halls Grant Scheme Total		0	0	0	0	0	0	0
S106 Projects	S106 Funding	67,400	67,400	0	0	0	0	0
S106 Projects Total		67,400	67,400	0	0	0	0	0
Security - Firewalls	Capital Receipt	0	0	0	14,000	0	0	14,000
	Drawdown of cash investments	10,000	10,000	0	0	0	0	0
Security - Firewalls Total		10,000	10,000	0	14,000	0	0	14,000
Serby Avenue Play Area renovation, Royston	Capital Receipt	7,800	7,800	0	0	0	0	0
Serby Avenue Play Area renovation, Royston Total		7,800	7,800	0	0	0	0	0
Server / Infrastructure Refresh	Capital Receipt	0	0	0	0	0	0	0
Server / Infrastructure Refresh Total		0	0	0	0	0	0	0
Smithsons Recreation Ground	Capital Receipt	1,800	1,800	0	0	0	0	0
	S106 Funding	0	0	0	0	0	0	0
Smithsons Recreation Ground Total		1,800	1,800	0	0	0	0	0
Software Asset Management	Capital Receipt	0	0	0	0	0	0	0
Software Asset Management Total		0	0	0	0	0	0	0
Software for personalised bills and annual billing	Capital Receipt	6,000	6,000	0	0	0	0	0
Software for personalised bills and annual billing Total		6,000	6,000	0	0	0	0	0
Splash Park at Bancroft Recreation Ground	Drawdown of cash investments	10,900	10,900	0	0	0	0	0
	S106 Funding	800	800	0	0	0	0	0
Splash Park at Bancroft Recreation Ground Total		11,700	11,700	0	0	0	0	0
Splash Park at Priory Memorial, Royston	Drawdown of cash investments	15,000	15,000	0	0	0	0	0
Splash Park at Priory Memorial, Royston Total		15,000	15,000	0	0	0	0	0
St John's Chapel Hitchin, Re-roofing	Capital Receipt	0	0	0	0	0	0	0
St John's Chapel Hitchin, Re-roofing Total		0	0	0	0	0	0	0
St Mary's car park. Structural repairs to steps	Capital Receipt	35,000	0	-35,000	35,000	0	0	0
St Mary's car park. Structural repairs to steps Total		35,000	0	-35,000	35,000	0	0	0
Storage Facilities	Capital Receipt	40,000	6,800	-33,200	33,200	0	0	0
Storage Facilities Total		40,000	6,800	-33,200	33,200	0	0	0
Tablets - Android Devices	Capital Receipt	500	500	0	0	8,000	8,000	8,000
	Drawdown of cash investments	7,500	7,500	0	10,000	0	0	0
Tablets - Android Devices Total		8,000	8,000	0	10,000	8,000	8,000	8,000
Telephony system	Drawdown of cash investments	10,600	10,600	0	0	0	0	0
Telephony system Total		10,600	10,600	0	0	0	0	0
Town Centre pay & display machines for on-street charging	Capital Receipt	0	0	0	235,000	0	0	0
Town Centre pay & display machines for on-street charging Total		0	0	0	235,000	0	0	0
Town Lodge - Various patch repairs to the roof	Drawdown of cash investments	0	0	0	0	0	0	0
Town Lodge - Various patch repairs to the roof Total		0	0	0	0	0	0	0
Transport Plans implementation (GAF)	Government Grant	0	0	0	250,000	0	0	0
Transport Plans implementation (GAF) Total		0	0	0	250,000	0	0	0
Ultra Violet water disinfection system	Capital Receipt	50,000	50,000	0	0	0	0	0
Ultra Violet water disinfection system Total		50,000	50,000	0	0	0	0	0
New changing rooms, Walsworth Common, Hitchin	Capital Receipt	0	0	0	0	0	13,000	0
	Other Capital Contributions	0	0	0	0	0	250,000	0
	S106 Funding	0	0	0	0	0	37,000	0

Project	Funding Source	2017/18 Working Budget	2017/18 Revised Budget	Movement £	2018/19 Funding £	2019/20 Funding £	2020/21 Funding £	2021/22 Funding £
New changing rooms, Walsworth Common, Hitchin Total		0	0	0	0	0	300,000	0
Walsworth Common Pitch Improvements								
	Capital Receipt	0	0	0	15,000	0	0	0
	Other Capital Contributions	0	0	0	83,000	0	0	0
	S106 Funding	0	0	0	5,000	0	0	0
Walsworth Common Pitch Improvements Total		0	0	0	103,000	0	0	0
Walsworth Common Reconstruction of Car Park								
	Capital Receipt	0	0	0	30,000	0	0	0
Walsworth Common Reconstruction of Car Park Total		0	0	0	30,000	0	0	0
Warren Car Park redevelopment								
	Capital Receipt	0	0	0	0	0	0	0
Warren Car Park redevelopment Total		0	0	0	0	0	0	0
Waste and Street Cleansing Data Mgmt								
	Drawdown of cash investments	0	0	0	0	0	0	0
Waste and Street Cleansing Data Mgmt Total		0	0	0	0	0	0	0
Waste and Street Cleansing Vehicles								
	Drawdown of cash investments	3,600,000	0	-3,600,000	3,600,000	0	0	0
Waste and Street Cleansing Vehicles Total		3,600,000	0	-3,600,000	3,600,000	0	0	0
Westmill Community Centre Design Work								
	Capital Receipt	0	0	0	0	0	0	0
Westmill Community Centre Design Work Total		0	0	0	0	0	0	0
Grand Total	Grand Total	15,069,800	10,903,200	-4,166,600	16,649,400	1,827,600	1,425,000	1,312,000

FINANCE, AUDIT & RISK COMMITTEE 21 MARCH 2018
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*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 15
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The following is the report to be considered by the Cabinet at its meeting to be held on 23 January 2018. The Committee is invited to comment on the report.

TITLE OF REPORT: TREASURY MANAGEMENT THIRD QUARTER 2017/18

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT
EXECUTIVE MEMBER: CLLR JULIAN CUNNINGHAM
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To inform Cabinet of the Treasury Management activities in the third quarter of 2017/18 to the end of December. The current forecast is that the amount of investment interest expected to be generated during the year is £0.324 million. This is an increase of £0.004 million on the working budget.
- 1.2 To inform Cabinet of the performance against the Prudential and Treasury indicators detailed in the appendix to this report. During the third quarter the Council has operated within the treasury and prudential indicators as set out in the Treasury Management Strategy Statement and in compliance with the Council's approved Treasury Management Practices.

2. RECOMMENDATIONS

- 2.1 Cabinet is asked to note the position of Treasury Management activity as at the end of December 2017.

3. REASONS FOR RECOMMENDATIONS

- 3.1 To ensure the Council's continued compliance with CIPFA's code of practice on Treasury Management and the Local Government Act 2003 and that the Council manages its exposure to interest and capital risk.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The primary principle governing the Council's investment criteria is the security of its investments, which includes credit, liquidity and market risk (see section 8 below). After this the return (or yield) is then considered, which provides an income source for the Council. The Council's appetite for risk is determined by the Treasury Strategy, which is reviewed each year. In general, greater returns can be achieved by taking on greater risk. Our current strategy has meant that we have been able to achieve a yield that is above the average achieved by the Link Hertfordshire and Buckinghamshire Investment Benchmarking Group.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 There is ongoing dialogue with the Authority's Cash Manager, Tradition and regular meetings with Treasury advisors (Link).

6. FORWARD PLAN

- 6.1 This report contains a recommendation on a key decision that was first notified to the public in the Forward Plan on the 2 February 2018.

7. BACKGROUND

- 7.1 Members adopted the 2017/18 Treasury Strategy at the meeting of full Council on the 9 February 2017.

- 7.2 Link Asset Services Ltd were first contracted to provide Treasury advice for the financial year 2012/13 and this arrangement has been extended until 2017/18, taking advantage of a reduced annual contract cost. The service includes:

- Regular updates on economic and political changes which may impact on the Council's borrowing and investment strategies
- Information on investment counterparty creditworthiness
- Technical updates
- Access to the Technical Advisory Group.

8. RELEVANT CONSIDERATIONS

- 8.1 Appendix A provides the Treasury Management update at the end of the third quarter. This document contains economic background, an interest rate forecast and summary outlook provided by Link for background context to Treasury activities. The remainder of the document contains an update on the Council's investment strategy.

- 8.2 In summary, during the third quarter the Council has operated within the treasury and prudential indicators as set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices.

- 8.3 The Council generated £0.255 million of interest during the nine three months of 2017/18. There were no new Tradition deals during the third quarter but the average interest rate agreed on in house new deals was 0.36%. The average interest rate on all outstanding investments at the 31 December was 1.00%.

- 8.4 The Council's activities expose it to a variety of risks (credit, liquidity and market). The Treasury Strategy sets out the Authority's appetite for the level of exposure to these risks.

- 8.5 **Credit Risk** is the possibility that other parties fail to pay back amounts that have been invested by the Council. This risk is mitigated by assessing the counterparties with whom the Council invests. For banks and building societies that are credit rated by Fitch, they must have a rating greater than BBB. Where building societies do not have a credit rating, then the level of investment is assessed against the overall assets of the institution. Due to the different risks that they are exposed to, the Council splits its

investments between banks and building societies and can have a maximum of 75% invested in each.

- 8.6 The Council also invests with other Local Authorities and Public Corporations (when appropriate opportunities are available) and in Money Market Funds. Money Market Funds are limited to 25% of total investments. A Money Market Fund is a regulated, stand-alone pooled investment vehicle which actively invests its assets in a diversified portfolio of mainly high grade, short-term money market instruments.

- 8.7 As at 31 December the split of investments was:

Banks	31%
Building Societies	58%
Local Authorities	2%
Money Market Funds	9%

- 8.8 **Liquidity Risk** is the possibility that the Authority may not have funds available to meet its commitments to make payments.

- 8.9 Cash flow forecasts are prepared to determine the level of funds required to meet the day to day commitments with investments split between the Cash Manager and the In-House team. The In-House investments cover the day to day cash flow activity of the Council whilst the Cash Managers' investments take advantage of higher interest rates for longer term investments when they become available. The level of funds made available to the Cash Manager, currently a total balance of £28.5 million, is primarily determined by the level of expenditure on the Council's Capital programme. The average In-House balance of investments for the first nine months was £14.3 million.

- 8.10 **Market Risk** is the possibility that financial loss might arise as a result of changes in interest rates.

- 8.11 Investing long term (greater than one year) currently achieves higher interest rates than short term deals. The risk of long term deals are two fold:

- (i) The longer the time period the longer the investment is exposed to default.
- (ii) If the investment has a fixed interest rate, interest rates could rise and the potential to invest at a higher rate will be lost until the investment matures.

- 8.12 Members have indicated that they are prepared to accept the market risk within the limits expressed in the Treasury Strategy, which allows up to 40% of investments to be invested for longer than 364 days at any one time. At the end of the third quarter the Council had 7.9% (£3.5 million) invested for longer than 364 days. During the third quarter, no new deals were placed for longer than a year.

- 8.13 The **return (or yield)** that the Council achieves is affected by both the level of risk as well as general market conditions. It continues to prove challenging to find acceptable counterparties willing to pay a reasonable return on cash investments, either long or short term. This issue is expected to continue during 2017/18 and beyond.

- 8.14 The Council has a negative **Capital Financing Requirement** (CFR) of £16.6 million (as at 31st March 2017), which reflects that it has a high level of cash investments and only £466k of borrowing. This is expected to reduce to approximately £11.0 million by the end of the year. The Council currently only has historic borrowing which is not cost effective to repay early.

9. LEGAL IMPLICATIONS

- 9.1 The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.
- 9.2 Section 151 of the Local Government Act 1972 states that:
“every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.”
- 9.3 The Prudential Indicators comply with the Local Government Act 2003.

10. FINANCIAL IMPLICATIONS

- 10.1 The amount of investment interest expected to be generated during the year is £0.324 million.
- 10.2 Potential options for inclusion in the Treasury Strategy are considered as and when identified. Any proposals to amend the Strategy are reported to Full Council, via Cabinet, for approval.

11. RISK IMPLICATIONS

- 11.1 Risks associated with treasury management and procedures to minimise risk are outlined in the Treasury Management Practices document, TMP1, which was adopted by Cabinet in July 2003 and is revisited annually as part of the Treasury Strategy review. The risk on the General Fund of a fall of investment interest below the budgeted level is dependant on banks and building societies need for borrowing. The introduction of the Funding for Lending Scheme which allows financial institutions access to low cost funding from Government for an extended period has impacted on their need to borrow and the rates at which they are prepared to borrow.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no direct equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and “go local” policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 There are no direct human resource or equality implications.

15. APPENDICES

- 15.1 Appendix A - Treasury Management Update December 2017.

16. CONTACT OFFICERS

Author

- 16.1 Dean Fury, Corporate Support Accountant, Tel 474509, email, dean.fury@north-herts.gov.uk

Contributors

- 16.2 Ian Couper, Head of Finance, Performance and Asset Management, Tel 474243, email ian.couper@north-herts.gov.uk
- 16.3 Antonio Ciampa, Accountancy Manager, Tel 474566, email, antonio.ciampa@north-herts.gov.uk
- 16.4 Reuben Ayavoo, Corporate Policy officer, Tel 47212, email reuben.ayavoo@north-herts.gov.uk

17. BACKGROUND PAPERS

Treasury Strategy 2017/18
CIPFA Prudential Code for Capital Finance in Local Authorities

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Treasury Management Update

Quarter Ended 31 December 2017

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Treasury Management Update

Quarter Ended 31 December 2017

The CIPFA, (Chartered Institute of Public Finance and Accountancy), Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, midyear/quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1. Economic Background

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 was disappointingly weak in the first half of the year; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y), which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure.

However, growth picked up in quarter 3 to 0.4% and in quarter 4 there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole. Growth in quarter 4 is expected to be around 0.4% again which would see annual growth in 2017 coming in at around 1.7 – 1.8%, almost as strong as the recently upwardly revised figure for 2016 of 1.8%, (which meant that the UK was equal to Germany as having the strongest GDP growth figure for the G7 countries in 2016).

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in its words warning that Bank Rate will need to rise. Recent Bank of England Inflation Reports have flagged up that they expected CPI inflation to peak at just over 3% in late 2017, before falling back to near to its target rate of 2% in two years' time. Inflation actually came in at 3.1% in November. The reason why the MPC became so aggressive with its wording in September and November around increasing Bank Rate was due to an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It was therefore no surprise that the MPC increased Bank Rate by 0.25% to 0.5% in November. However, their forward guidance of two more increases of 0.25% by 2020 was viewed as being more dovish than markets had expected. However, some forecasters are

flagging up that they expect growth to improve significantly in 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weaker services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on more than one increase in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of QE. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.6% in quarter 1 (2.1% y/y), 0.7% in quarter 2 (2.4% y/y) and 0.6% in quarter 3 (2.6% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in November inflation was only 1.2%. It is therefore unlikely to start on an upswing in rates until possibly towards the end of 2019.

USA. Growth in the American economy has been volatile in 2015 and 2016. 2017 followed that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1% and quarter 3 coming in at 3.2%, the first time since 2014 that two successive quarters have been over 3%. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.1% in November, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on an upswing in rates with four increases since December 2016 to lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. In October, the Fed became the first major western central bank to make a start on unwinding quantitative easing by phasing in a start to a gradual reduction of reinvesting maturing debt.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan. GDP growth has been gradually improving during 2017 to reach an annual figure of 2.1% in quarter 3. However, it is still struggling to get inflation anywhere near to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

2. Interest Rate Forecast

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

Link Asset Services Interest Rate View													
	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Bank Rate	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
5yr PWLB rate	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
10yr PWLB rate	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
25yr PWLB rate	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB rate	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%

Link Asset Services undertook its last review of interest rate forecasts on 7 November after the quarterly Bank of England Inflation Report and MPC meeting. As expected, the MPC policy raised Bank Rate by 0.25% to 0.50%. The MPC also gave forward guidance that they expected to raise Bank Rate by 0.25% only twice more in the next two years to reach 1.0% by 2020. This was very much in line with previous guidance that Bank Rate would only go up very gradually and to a limited extent.

The overall balance of risks to economic recovery in the UK is probably currently to the downside due to the uncertainties around Brexit; however, given those uncertainties, there is a wide diversity of possible outcomes for the strength of economic growth and inflation, and the corresponding speed with which Bank Rate could go up.

3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2017/18, which includes the Annual Investment Strategy, was approved by the Council on 9th February 2017. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield.

The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31 December 2017.

The average level of funds available for investment purposes I house during the quarter was **£14.5m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds **£28.5m** core cash balances for investment purposes (i.e. funds available for more than one year). The investment portfolio yield for the first 9 months of the year is 0.78%.

Investments at 30th December 2017

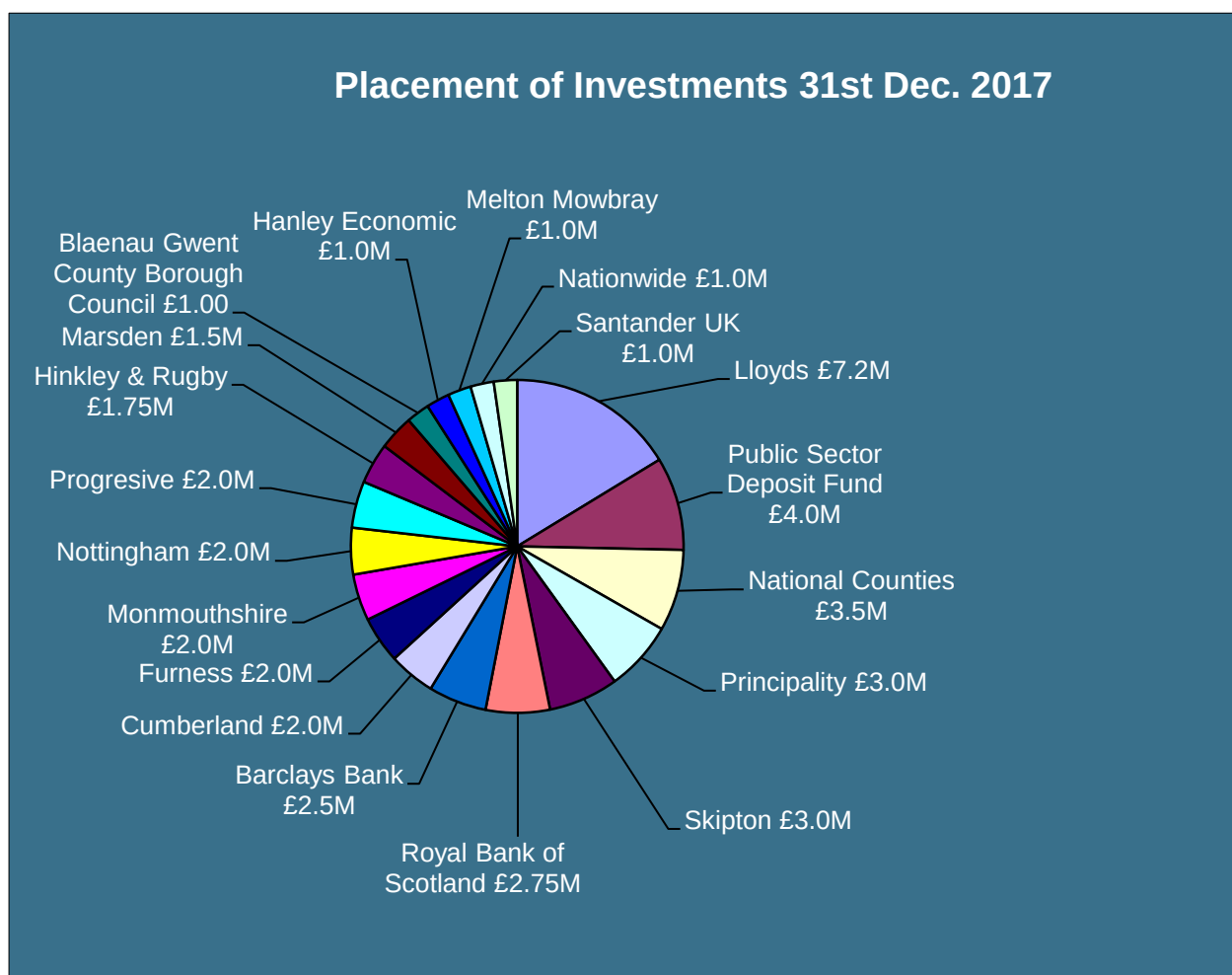
	Amount	Average
	£	Interest Rate %
Managed By NHDC		
Banks	10,700,000	0.49
Local Authorities	1,000,000	0.37
Money Market Fund	4,000,000	0.44
NHDC To Total	15,700,000	0.47
Managed by Tradition		
Banks	2,750,000	0.58
Building Societies	25,750,000	1.09
Tradition Total	28,500,000	1.05
TOTAL	44,200,000	1.00

In percentage terms, this equates to:

	Percentage
Local Authorities	2.26
Money Market Funds	9.05
Banks	30.43
Building Societies	58.26

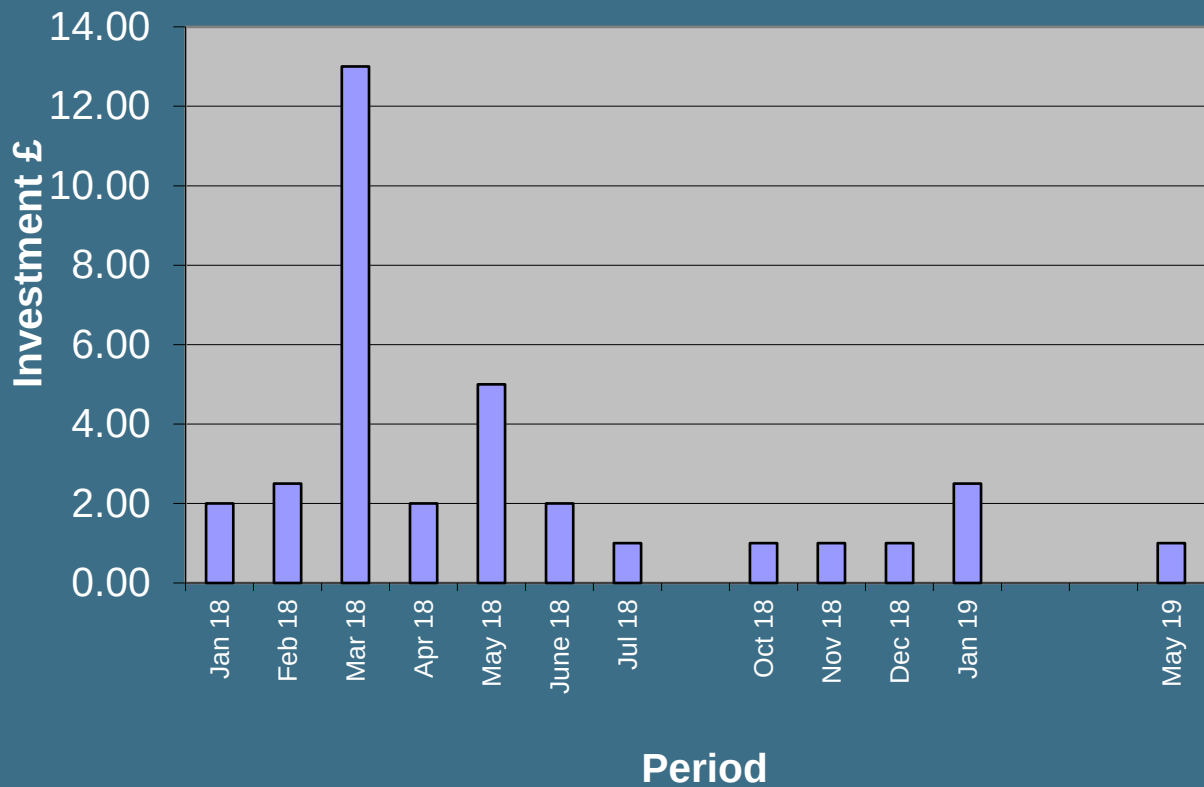
The approved 17/18 strategy is that no more than 75% of investments should be placed with Building Societies.

The pie chart below shows the spread of investment balances as at 30 December 2017. This is a snapshot in time that demonstrates the diversification of investments.



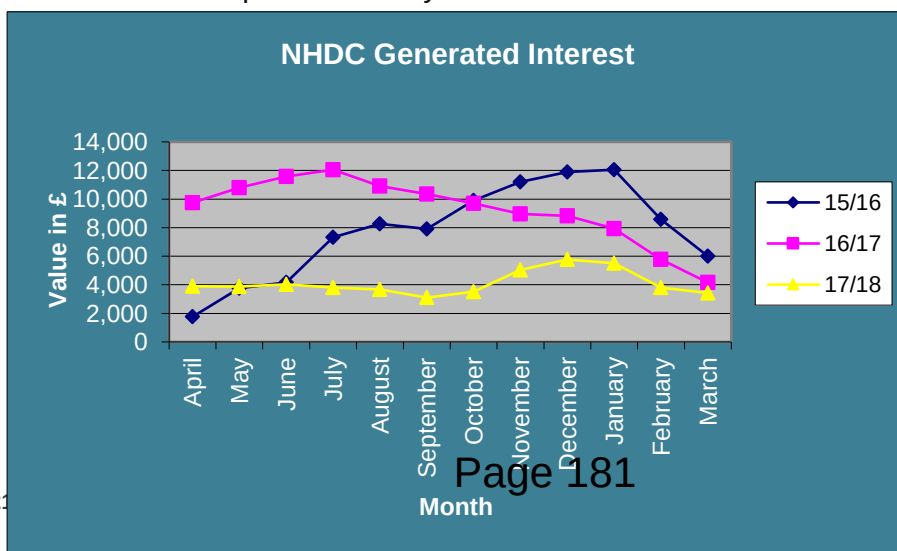
The chart below shows the Council's investment maturity profile. (This does not include the £4.0M held in the Public Sector Deposit Fund Money Market account or £5.2M held in the Lloyds current account which can be called back on any day). There were no new Tradition deals in the third quarter.

Investment Maturity 31st Dec 2017



The Council's Original budgeted investment return for 2017/18 was £0.267M. The projection at the second quarter was £0.320M which was an increase of £0.053M on the Original budget. The projection at the third quarter is slightly higher at £0.324M. The increase is mainly due to a higher level of balances.

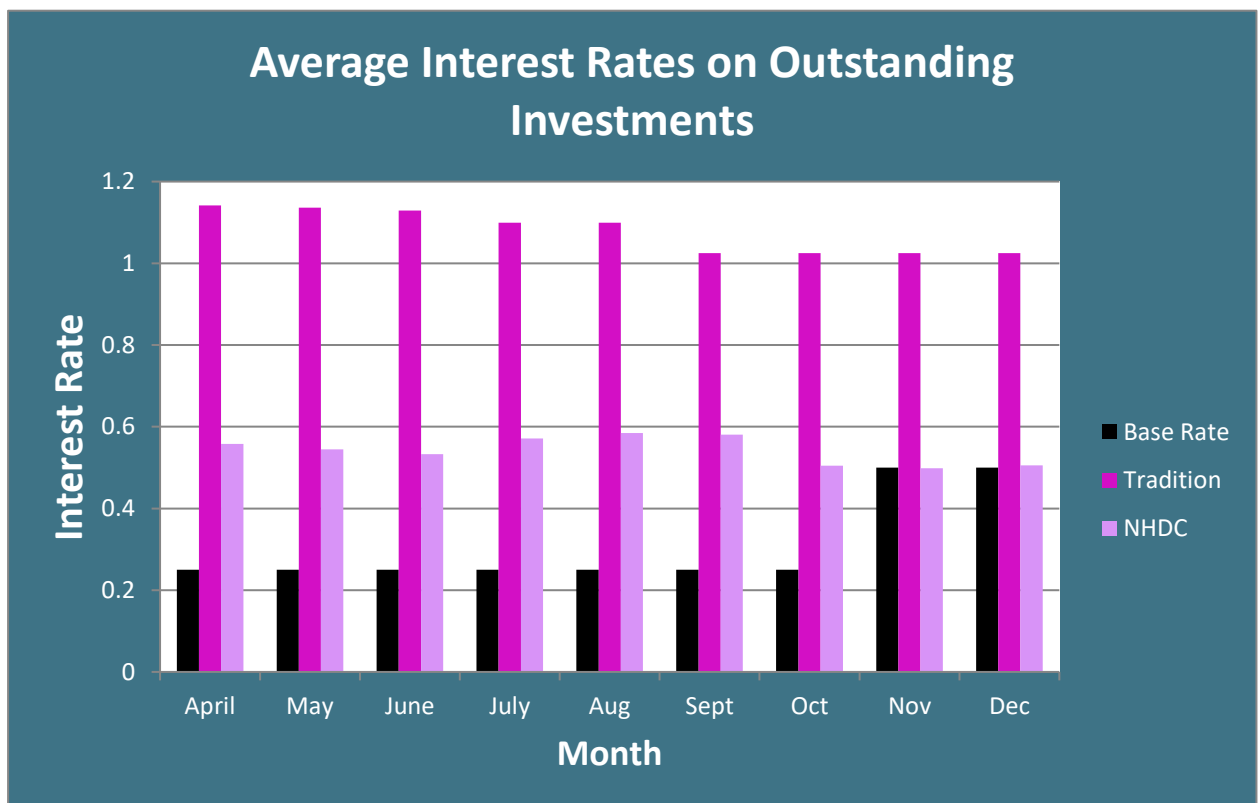
The graph below shows the level of interest expected to be generated from the cash available in-house over the year which is maintained to ensure adequate cash flow. Cash balances have historically reduced over January to March each year as there are less Council tax receipts in February and March.



The table below shows the average rates achieved on investments made during the third quarter.

Ave Interest Rate on Deals made in the 3rd Qrt	
NHDC	0.36%
Tradition	N/A

The graph below shows the average rate of interest on outstanding investments at 30th December.



As can be seen from the graph, the average rate of interest on outstanding investments for NHDC (cash managed internally) is consistently lower than that of the Cash Managers. This is because the investments made by NHDC during the year are to meet cash flow requirements and are therefore made for short periods. At present, rates in the shorter periods are lower than the longer periods. The Cash Managers have more long term investments and the turnover of investments is small in comparison to NHDC.

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the third quarter of 2017/18.

4. New Borrowing

No borrowing was undertaken during the quarter.

The Council's capital financing requirement (CFR) for 2017/18 is expected to be -£10.7m (-£16.6m at the end of 16/17). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The CFR is negative as the Council has more cash investments than borrowing. The balance of external and internal borrowing is generally driven by market conditions.

It is anticipated that long term borrowing will not be undertaken during this financial year.

PWLB certainty rates for the financial year to 31 December 2017

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.80%	1.19%	1.80%	2.52%	2.25%
Date	03/05/2017	13/04/2017	21/06/2017	08/09/2017	08/09/2017
High	1.27%	1.67%	2.25%	2.85%	2.59%
Date	08/12/2017	25/10/2017	25/10/2017	06/10/2017	06/10/2017
Average	1.02%	1.39%	2.01%	2.68%	2.41%

Loans Outstanding at 31 December 2017

	Amount	Average Interest Rate	Cumulative Rate
	£	%	%
Public Works Loans Board	466,109	9.5265	8.8541
Lender Option Borrower Option	0		
	466,109	9.5265	8.8541

5. Debt Rescheduling

No debt rescheduling was undertaken during the quarter.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators, (affordability limits), are included in the approved TMSS.

During the quarter ended 31 December 2017, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in Appendix 1.

APPENDIX 1: Prudential and Treasury Indicators for 2017-18 as at 31 December 2017

Treasury Indicators	2017/18 Budget £'000	Quarter 3 (Oct - Dec) Actual £'000
Authorised limit for external debt The maximum level of borrowing set by Council which can not be exceeded.	6,000	466
Operational boundary for external debt The limit beyond which external debt is not normally expected to exceed, based on gross external debt	4,000	466
Gross external debt Based on current level of debt, plus an allowance for additional debt if it was required	3,480	466
Investments Level of cash investments, expect actuals to exceed this early in the year as linked to capital spend during the year.	(31,500)	(44,200)
Net borrowing Investments less Gross external debt	(28,020)	(43,734)

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	25	11
12 months to 2 years	16	16
2 years to 5 years	53	53
5 years to 10 years	96	96
10 years to 20 years *1	40	40
20 years to 30 years *1	250	250

The budget represents the structure of borrowing that was in place at the start of the year. No new borrowing has been taken out so the position is still in line with budget.

Upper limit of fixed interest rates based on net debt At least 70% of investments should be at fixed rates. Currently only the Money Market Fund investment is at a variable rate.	70% - 100%	91%
Upper limit of variable interest rates based on net debt See above.	0% - 30%	9%
Upper limit for principal sums invested over 364 days Up to 40% of investments (by value) can be for more than one year.	Max 40%	7.9%

Prudential Indicators	2017/18 Budget £'000	Quarter 3 (Oct - Dec) Actual £'000
Capital expenditure The budget is the expected capital expenditure during the year. The actual total is spend to date. Only at the end of the year will actuals get close to the budget.	20,590	7,548
Capital Financing Requirement (CFR) The total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. The year end position reflects the budgeted capital spend during the year. A negative total means that there is no borrowing requirement.	(2,286)	(10,716)
In year borrowing requirement	0	0
Ratio of financing costs to net revenue stream Net expenditure/ (income) from borrowing and investments, as a % of the Council's net revenue. This is negative as the Council is currently receiving a net income from investments.	-1.6	-2.0

Incremental impact of capital investment decisions on Band D Council Tax This reflects the expected impact of the net change in financing costs/ income compared to the previous year. This is represented by the theoretical change in Band D Council Tax that would be required to fund this change.	1.13%	1.13%
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FINANCE, AUDIT & RISK COMMITTEE

21 MARCH 2018

***PART 1 – PUBLIC DOCUMENT**

AGENDA ITEM No.

16

TITLE OF REPORT: STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS

REPORT OF THE HEAD OF FINANCE, PERFORMANCE AND ASSET MANAGEMENT

EXECUTIVE MEMBER: *N/a*

COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

1. EXECUTIVE SUMMARY

- 1.1 To provide the Committee with details of the statutory guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) on Local Government Investments.

2. RECOMMENDATIONS

- 2.1 That the Committee note and comment on the contents of the report.

3. REASONS FOR RECOMMENDATIONS

- 3.1 This is statutory guidance and therefore there is a requirement for the Council to comply with it.

4. ALTERNATIVE OPTIONS CONSIDERED

- 4.1 None considered as this relates to statutory guidance.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1 The purpose of this report is to make the Committee aware of the new guidance and therefore there is no requirement for consultation.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1 With reductions in Central Government funding, Local Authorities have been under pressure to make efficiency savings, reduce service levels or generate income. The Localism Act (2011) gave Local Authorities much greater powers in terms of what they

can do and these have been used to find new ways of generating income. This has received particular attention in relation to borrowing money for the purposes of investing in capital assets that will provide a greater level of return than the associated borrowing costs. This has been seen by some as Local Authorities taking on too much risk and also distorting the opportunities for private sector property investment.

- 7.2 On the 2nd February 2018, the Ministry for Housing, Communities and Local Government issued new guidance in respect of capital finance and Local Government capital investments.

8. RELEVANT CONSIDERATIONS

- 8.1 The following paragraphs detail the key new requirements that this statutory guidance introduces and they impact on the Council.

- 8.2 Previous legislation required that an Authority should have a Treasury Strategy that was approved each year by Full Council. Any deviation from that strategy would require a report back to Full Council. The new guidance effectively terms this an Investment Strategy and extends the definition of what this should cover to also include:

- non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios.
- Loans made to a wholly-owned trading company, a joint venture or a third party.

The Council has a portfolio of historic investment properties which are generally ground leases on industrial units. It also currently has a loan to Herts Building Control which was to help set it up.

- 8.3 The requirements in relation to treasury investments are unchanged and require an assessment of Security, Liquidity and Yield, in that order of importance. For all other investments there is a requirement to show:

- How they contribute towards the objectives of the Council and/or how they contribute towards the place making role of the Council.
- Through quantitative indicators, an assessment of the Council's risk exposure. This should include the rate of return (yield) and where they are funded from borrowing the cost of that debt.

The investment properties that the Council own are primarily held for the income that they provide, although they do partially support local businesses. As they are ground leases the risk of them is very low. The loan to Herts Building Control is to help develop a cost effective way of delivering this service. As it is a loan to a new company it is relatively high risk, although the latest business plan seems positive and the risk is shared between 7 authorities. The Council only has a small amount of historic borrowing that is not cost effective to pay back, and therefore none of these investments are funded from borrowing. We will develop some ideas of appropriate quantitative indicators and report back to the Committee in the Autumn.

- 8.4 It is up to the Council to determine its own risk profile in relation to non-treasury investments. There is a requirement to assess security, liquidity and yield, but they do not have to be in that order of importance. There should be a requirement to achieve a certain level of security and liquidity (which the Council can determine), but after that yield could be prioritised.

- 8.5 The Council is still able to loan money to other organisations where the aim is to promote economic growth, and these loans would not generally be seen as prudent

when purely assessing security and liquidity. The requirements are that the amounts (individually and in total) are proportionate and that any overdue repayments are chased. The Council does not currently have any of these investments and does not plan to do so.

8.6 For non-financial investments there is a requirement to carry out an annual valuation to ensure that the underlying asset still has sufficient value to provide security. If this is not the case there is a requirement to detail what is going to be done about it. The Council's investment properties are already valued on an annual basis. As they are generally ground leases there is a long-term obligation to pay an annual amount to the Council. If these amounts were not paid then the Council would get back the land as well as any buildings that the lessee had built on it.

8.7 The investment strategy should detail the Council's approach to assessing risk. This will include things like:

- Assessment of the market and competition.
- Use of external advisors and how the quality of these will be assessed.
- Use of credit ratings and how often these will be updated.

The actual use of these will depend partly on the type of investment, and given the Council's current non-financial investments, will be more appropriate for any new investments. The Committee will be aware of potential investments in relation to the Churchgate Shopping Centre and Royston Leisure Centre. Any business case for these will include an appropriate assessment of risk.

8.8 There is also a requirement to determine the Council's approach to the liquidity of non-financial investments. The guidance appreciates that capital assets can be fairly illiquid, as they would take a long time to sell. For any new non-financial investments that the Council undertakes, the business case will fully assess exit routes. Given the potential proposal in relation to Churchgate, it will probably be necessary for the Council to consider illiquid investments where they primarily provide wider regenerative benefits.

8.9 Where the Council is (or plans to become) reliant on profit generating investment activity to balance its budgets, there is a requirement to disclose the extent that the level of profit is required and any contingency periods. It is recommended that this assessment is over a longer period than the usual 5 years. Whilst the Council continues to expend its focus on ways of generating income from capital investment, it does not yet plan to become reliant on this to achieve a balanced budget.

8.10 The Prudential Code states that an authority should not borrow in advance of need. This has generally meant that an authority can only borrow for capital investment when it has run out of capital reserves i.e. it can not borrow at a low rate to try and achieve treasury returns at a higher rate. This guidance extends this to include non-financial investments. For example, on the face of it this would appear to prevent borrowing for the redevelopment of the Churchgate Shopping Centre. However it is considered that this extension is actually intended to cover investments that do not in any way contribute towards the general objectives of the Council e.g. investing outside of the Authorities boundary. Furthermore the guidance does allow Authorities to ignore this requirement as long as they explain why and comment on how they will manage the risk.

8.11 The Investment Strategy is required to disclose the steps taken to ensure that those elected members and statutory officers involved in investment decision making process have appropriate capacity, skills and information to enable them to take informed decisions. These informed decisions should include an appropriate understanding and

assessment of risk. To help meet this requirement, the Head of Finance, Performance and Asset Management is arranging a training session on risk that will be available to all Councillors. All Council reports include a 'risk implications' section and this should be seen as key for reports which relate to investment decisions. The Finance, Audit and Risk Committee may want to consider the role that they take in this.

9. LEGAL IMPLICATIONS

- 9.1 The Guidance was issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to "have regard" to "such guidance as the Secretary of State may issue."
- 9.2 10.1.5 (c) of the Committee's terms of reference includes: "*To consider the Council's policy in relation to Treasury Management and make recommendations on the Annual Treasury Management and Investment Strategy, and Treasury Management Code of Practice.*" Statutory guidance on investment considerations are therefore relevant to this function.

10. FINANCIAL IMPLICATIONS

- 10.1 The Council regards a prime objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, the Treasury Management Strategy ensures that its counterparty lists and limits reflects a prudent attitude towards organisations with whom funds are deposited, and limits its investment activities to the instruments, methods and techniques referred to in the Treasury Management Practices adopted by the Authority. The Council will ensure it has adequate, though not excessive, cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to it which are necessary for the achievement of its business/service objectives.
- 10.2 The framework established by the Prudential Code should support local strategic planning, local asset management planning and proper option appraisal. The objectives of the Prudential Code are to ensure, within this clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. The Prudential Code requires authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources and ensure that decisions are being made with sufficient regard to the long run financing implications and potential risks to the Authority.

11. RISK IMPLICATIONS

- 11.1 Risks in relation to investments are covered in section 8.

12. EQUALITIES IMPLICATIONS

- 12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2 There are no equalities implications arising from this report. Where relevant, specific capital investments would be subject to an equalities impact assessment.

13. SOCIAL VALUE IMPLICATIONS

- 13.1 The Social Value Act and “go local” policy do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1 It is expected that this guidance will create more work for the Accountancy team when preparing the budget reports for 2019/20 onwards. It is currently expected that this additional work can be absorbed within existing workloads.

15. APPENDICES

- 15.1 None.

16. CONTACT OFFICERS

- 16.1 Ian Couper, Head of Finance, Performance and Asset Management
ian.couper@north-herts.gov.uk; ext 4243

17. BACKGROUND PAPERS

MHCLG Statutory Guidance on Local Government Investments
[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/
Guidance on local government investments.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf)

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