

# Public Document Pack

14 September 2018

Our Ref COMMITTEE 24/09/18  
Your Ref.  
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To: Members of the Committee: Councillors Terry Hone, Simon Harwood, Ian Albert, Kate Aspinwall, Jim McNally, Ian Moody and Terry Tyler

Substitutes: Councillors Steve Jarvis, Ben Lewis, Helen Oliver and Janine Paterson

You are invited to attend a

## **MEETING OF THE FINANCE, AUDIT AND RISK COMMITTEE**

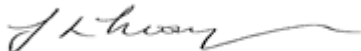
to be held in the

**COUNCIL CHAMBER, COUNCIL OFFICES, GERNON ROAD,  
LETCWORTH GARDEN CITY**

On

**MONDAY, 24TH SEPTEMBER, 2018 AT 7.30 PM**

Yours sincerely,



Jeanette Thompson  
Service Director – Legal and Community

## **Agenda** **Part I**

<b>Item</b>	<b>Page</b>
<b>1. APOLOGIES FOR ABSENCE</b>	
<b>2. MINUTES - 30 JULY 2018</b> To take as read and approve as a true record the minutes of the meeting of this Committee held on the 30 July 2018.  Minutes to follow.	
<b>3. NOTIFICATION OF OTHER BUSINESS</b> 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.	
<b>4. CHAIRMAN'S ANNOUNCEMENTS</b> 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, wished to exercise a 'Councillor Speaking Right', must declare this at the same time as the interest, move to the public area before speaking to the item and then must leave the room before the debate and vote.	
<b>5. PUBLIC PARTICIPATION</b> To receive petitions and presentations from members of the public.	
<b>6. ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2018 REPORT OF ERNST AND YOUNG</b>  To consider the Annual Audit Letter for NHDC 2017/18.	(Pages 1 - 26)

7. **SHARED ANTI FRAUD REPORT SERVICE (SAFS) REPORT** (Pages  
REPORT OF THE HEAD OF COUNTER FRAUD, SHARED ANTI-FRAUD 27 - 48)  
SERVICE
- To inform the Finance, Audit and Risk Committee of Anti-Fraud activity at NHDC 2017/18.
8. **ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2018/19 -** (Pages  
**PROGRESS REVIEW** 49 - 56)  
REPORT OF THE SENIOR POLICY OFFICER
- To consider the progress against the Annual Governance Statement Action Plan 2017/18.  
To consider the Annual Governance Statement Action Plan for 2018/19.
9. **SIAS - ANNUAL REPORT 2017/18** (Pages  
REPORT OF THE CLIENT AUDIT MANAGER, SHARED INTERNAL AUDIT 57 - 72)  
SERVICE
- To consider the Shared Internal Audit Services Annual Report 2017/18.
10. **SIAS PROGRESS REPORT 2018/19** (Pages  
REPORT OF THE CLIENT AUDIT MANAGER, SHARED INTERNAL AUDIT 73 - 88)  
SERVICE
- To receive an update on progress against the 2018/19 Audit Plan.
11. **RISK MANAGEMENT** (Pages  
REPORT OF THE SERVICE DIRECTOR - RESOURCES 89 - 114)
- To provide the Finance, Audit and Risk Committee with a Risk Management Update.
12. **INTEGRATED CAPITAL AND TREASURY STRATEGY** (Pages  
REPORT OF THE SERVICE DIRECTOR – RESOURCES 115 -  
142)
- To consider the report entitled Integrated Capital and Treasury Strategy.
13. **FUTURE MEETING - POSSIBLE AGENDA ITEMS**  
Introduced by the Chairman.

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# Agenda Item 6

**FINANCE, AUDIT & RISK COMMITTEE  
24 SEPTEMBER 2018**

**PART 1 - PUBLIC DOCUMENT**

TITLE OF REPORT: ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2018  
REPORT FROM ERNST AND YOUNG

To consider the NHDC Annual Audit Letter 2017/18.

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# **North Hertfordshire District Council**

Annual Audit Letter for the year  
ended 31 March 2018

22 August 2018

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world

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Focused on your future



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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated 23 February 2017)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the North Hertfordshire District Council, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.





01

# Executive Summary

## Executive Summary

We are required to issue an annual audit letter to **North Hertfordshire District Council** following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's :</b> ▶ Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
<b>Reports by exception:</b>	
Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	We had no matters to report.

## Executive Summary (cont'd)

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As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 30 July 2018
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2018

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In December 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

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Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP



02

# Purpose and Responsibilities

# Purpose and Responsibilities

## The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 30 July 2018 Finance, Audit and Risk Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

## Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 22 January 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

Expressing an opinion:

▶ On the 2017/18 financial statements; and on the consistency of other information published with the financial statements.

Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.

Reporting by exception:

- ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
- ▶ Any significant matters that are in the public interest;
- ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
- ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500mn for whole of government accounts. Therefore, we did not perform any detailed audit procedures on the return.

## Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



**03**

**Financial Statement Audit**

# Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on July 2018.

Our detailed findings were reported to the 30 July 2018 Finance, Audit and Risk Committee.

The key issues identified as part of our audit were as follows:

## Significant Risk

### Misstatements due to fraud or error

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Our actions:

We performed mandatory procedures, including:

Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements

Reviewing accounting estimates for evidence of management bias.

Testing manual debtors, and creditors.

Review of the NDR appeals provision.

Review of entries posted through the movement in reserves.

Evaluating the business rationale for significant unusual transactions.

## Conclusion

Our testing did not identify any material misstatements from management override.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position.

## Financial Statement Audit (cont'd)

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The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p>Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure account.</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Our actions:</p> <p>We performed mandatory procedures, including:</p> <ul style="list-style-type: none"><li>Reviewing and testing revenue and expenditure recognition policies;</li><li>Reviewing and discussing with management any accounting estimates on revenue or expenditure recognition for evidence of bias;</li><li>Developing a testing strategy to test material revenue and expenditure streams; and</li><li>Reviewing and testing revenue cut-off at the period end date.</li></ul>	<p>We did not identify any material misstatements from revenue and expenditure recognition.</p> <p>Overall our audit work has not identified any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>



## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
<p><b>Valuation of Property, Plant and Equipment</b></p> <p>Property, Plant and Equipment represent a material balance in the Council's accounts. Valuation changes, the impact of impairment reviews and depreciation charges can also be material values.</p>	<p>Our work included:</p> <ul style="list-style-type: none"> <li>• Reviewing a sample of valuations for individual assets</li> <li>• Checking that assets are being revalued over a 5 year cycle</li> <li>• Reviewing assets not revalued in year for potential material changes</li> <li>• Testing the accounting entries made for revaluation.</li> </ul> <p>Our programme of work was completed with no issues to raise.</p>
<p><b>Pension Liability Valuation</b></p> <p>The Local Authority Accounting Code of Practice (the Code) and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hertfordshire County Council.</p> <p>The Council's pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £45.03m.</p>	<p>We reviewed the assessment of the actuary employed by Hertfordshire Pension Fund to value the scheme liabilities. The National Audit Office commissioned PWC to undertake this work and their report is in turn reviewed by EY pension specialists. The audit team followed up on the issues arising from the reports.</p> <p>There was a change in the total value of the pension fund net assets from the estimated year end balance used for IAS 19 reporting purposes and the actual. The impact of this was an understatement of the Council's share of the pension fund assets by £1.992m. This amount was above our summary of audit differences level and was adjusted in the accounts.</p> <p>We did not identify any issues with the accounting entries and disclosures made within the financial statements.</p>

## Financial Statement Audit (cont'd)

### Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £1.4m (2016/17 : £1.4m), which is 2% of gross expenditure reported in the accounts.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the 30 July 2018 Finance, Audit and Risk Committee that we would report to the Committee all audit differences in excess of £68,000 (2016/17 : £71,000)</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits:
- ▶ Related party transactions.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.



# 04 Value for Money

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

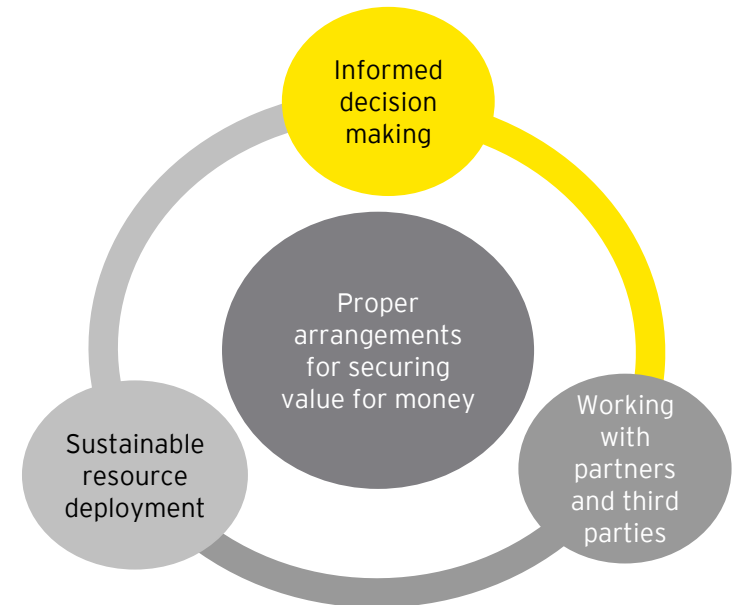
Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

We identified one significant risk around these arrangements. The table below presents our findings in response to the risk in our Audit Planning Report.

We performed the procedures outlined in our audit plan and did not identify any significant weaknesses in the Council’s arrangements.

We therefore issued an unqualified value for money conclusion on 31 July 2018.



Significant Risk	Conclusion
<p>The Council identified the need to identify savings of £3.6 million over the next 3 years with £2.7 million being required in 2018/19. This is a material level of savings with the largest element estimated to arise from the re-tendering of the waste collection and street cleansing contract.</p>	<p>We requested information on the first quarter’s revenue budget monitoring to see what the position is against the savings identified in the waste collection and street cleansing contract. This showed a £0.23 million forecast over performance on income from green waste collection with 50% of households taking up the service (far more than the consultation suggested). There are cost pressures across various budgets (especially costs associated with comingled waste) which means that the forecast impact overall on 2018/19 from all budget unders/overs is an underspend against budget of £0.055 million. Whilst it is early in the year the Council appears to be well placed to achieve the budgeted reduction in costs.</p>



05

## Other Reporting Issues



## Other Reporting Issues

### Whole of Government Accounts (WGA)

As the Council falls below the £500 million threshold for detailed review as per the NAO's group instructions, we were not required to perform detailed work on the WGA return.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We had no matters to report.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Other powers and duties

We did not receive any objections to the 2017/18 financial statements from members of the public and had no issues that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### Independence

We communicated our assessment of independence in our Audit Results Report to the Finance, Audit and Risk Committee on 30 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.



## Other Reporting Issues (cont'd)

### Control Themes and Observations

It is the responsibility of North Hertfordshire District Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We did not identify any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.



**06**

**Focused on your future**





## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. These are set out below however the impact on the Council is not considered to be significant.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty.</p>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ For local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers</p>



## Focused on your future (cont'd)

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Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>The standard will affect authorities with significant leases.</p>



**07**

**Audit Fees**

## Audit Fees

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As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our July 2018 Audit Results Report.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s	£'s
Total Audit Fee - Code work	52,037	52,037	52,037	52,037
Grant Claims (* 2017/18 tbc)	7,524*	7,524	7,524	5,648
Total Fees	59,561	59,561	59,561	57,685

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

Our work on the 2017/18 grant claims has not started at the time of writing this report.

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**FINANCE, AUDIT & RISK COMMITTEE  
24 SEPTEMBER 2018**

**PART 1 - PUBLIC DOCUMENT**

TITLE OF REPORT: 2017/18 ANTI-FRAUD REPORT

REPORT OF THE HEAD OF COUNTER FRAUD, SHARED ANTI-FRAUD SERVICE

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## **North Hertfordshire District Council**

### **2017/18 Anti-Fraud Report**

**September 2018**

### **Recommendation**

Members are recommended to:

Note the work of the Council and the Shared Anti-Fraud Service in delivering the *Anti-Fraud Action Plan 2017/18*.

## Contents

### Introduction

1. Background
2. Summary of SAFS Activity at NHDC 2017/18
3. Reporting & Transparency Code Data

### Appendix

- A. NHDC/SAFS Anti-Fraud Plan 2017/18
- B. Reported Fraud - outcomes and values 2017/18
- C. SAFS KPI Performance 2017/18
- D. SAFS Partnership Annual Report 2017/18

## Introduction

This report provides details of the work undertaken in implementing the Council's Anti-Fraud Plan for 2017/2018. The Committee are asked to note this work.

A number of reports are being used by SAFS to help ensure that the Council is both: aware of its own fraud risks; and is finding ways to mitigate or manage these effectively wherever possible.

These reports include, but are not restricted to:

- *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.
- CIPFA's *Fraud and Corruption Tracker 2017* indicates that identified fraud had increased since 2016 but that counter fraud capacity within councils had reduced, and would continue to do so, placing local government at even greater risk of fraud.
- The Central Government's *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. Background

- 1.1 According to reports from CIPFA, the National Audit Office (NAO), the Cabinet Office, and the Private Sector; fraud risk across local government in England exceeds £2.billion each year with some more recent reports indicating levels considerably above this.
- 1.2 The Cabinet Office, Ministry for Housing Communities and Local Government, National Audit Office, and CIPFA have also issued advice, and best practice guidance 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 sufficient resource in counter fraud activities that deliver savings.
- 1.3 It is essential that to support this service the Council has in place a robust framework to prevent and deter fraud, including effective strategies and policies, as well as plans to deal with the investigation and prosecution of identified fraud.
- 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

## 2. SAFS Activity 2017/2018- *Delivery of the 2017/18 Anti-Fraud Plan*

### Staffing

- 2.1 In March 2017 this Committee approved the 2017/2018 Anti-Fraud Action Plan for the Council, and KPIs for SAFS to achieve in respect of delivery of the plan. See **Appendix A** for full details of the 2017/2018 Plan.
- 2.2 For 2017/2018 the SAFS Team was composed of fourteen fully trained and accredited counter fraud staff based at Hertfordshire County Council's offices in Stevenage. Each SAFS Partner receives dedicated support from this team. SAFS allocate officers to work in each partner organisation. These officers act as the first point of contact for that partner's services, and will assist in developing relationships at a service level, delivering training, and working on local pilot projects.
- 2.3 For 2017/18 SAFS deployed 1 FTE Counter Fraud Officer (CFO) to work at North Hertfordshire District Council. This officer is supported by SAFS Management and the SAFS Intelligence Team based at Stevenage who record and sift all fraud reported to the Council.

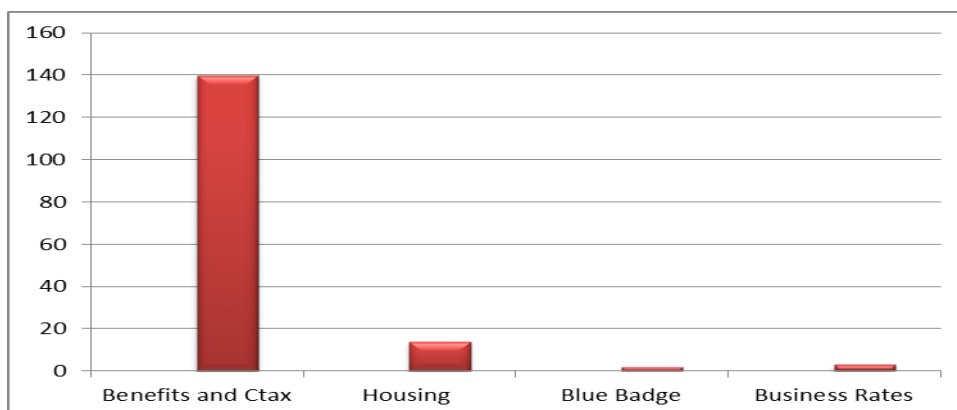
Fraud Awareness and Reported Fraud

- 2.4 One of the key aims for the Council is to create an anti-fraud culture, that will deter fraud; encourage senior managers and Members to consider the risk of fraud when developing policies or processes to prevent fraud occurring; encourage staff and the public at large to understand the impact of fraud on the Council and to report fraud where it is suspected.
- 2.5 The SAFS webpage – [www.hertfordshire.gov.uk/reportfraud](http://www.hertfordshire.gov.uk/reportfraud) includes an online reporting tool. A confidential fraud hotline (0300 123 4033) and a secure email account are also available for reporting fraud – [fraud.team@hertfordshire.gov.uk](mailto:fraud.team@hertfordshire.gov.uk). These contact details can be accessed via the Council’s own website and council staff can use the same methods to report fraud.
- 2.6 SAFS delivered training to a number of front line services in 2017/18 and working with the County Councils HR Learning and Development Team, has delivered an E-Learning fraud awareness package which staff will be able to access through the Council’s intranet.

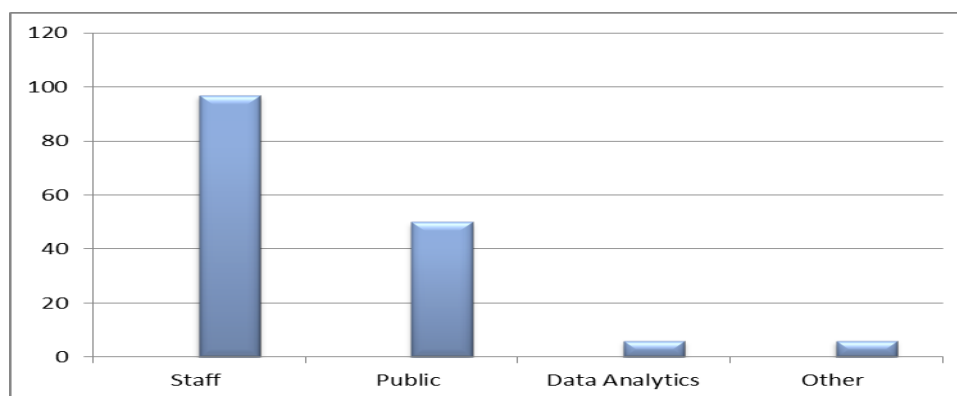
Counter Fraud Activity

- 2.7 During 2017/18 SAFS received 159 allegations of fraud affecting various Council services. This was the highest number of reported fraud in any SAFS Partner in 2017/18 and indicates that staff are confident in reporting fraud where they suspect it and that the public are also engaged and able to report allegations via the SAFS website. (SAFS also carried forward 95 live cases from 2016/17).

**Table 1. Types of fraud being reported- (159 Referrals)**



**Table 2. Who is reporting Fraud- (159 Referrals)**



- 2.8 At the time of this report many cases raised for investigation, in 2017/18, are still live and under investigation. However, of 42 cases investigated and closed in the year 31 identified an element of fraud or error with fraud losses of £336,000 and fraud savings, or new revenue, of £149,000 identified. This is the estimated value of losses and these monies, where applicable, will then need to be recovered by the relevant service. *A further £101,000 in subsidy payable to the Council by the DWP, due to identified Housing Benefit fraud, will be added to the Councils HB Subsidy returns for 2017/2018. See Appendix B* for a breakdown by service area where fraud has been identified.
- 2.9 The majority of reactive fraud work for the Council relates to housing benefit or council tax discounts. As well as those cases investigated and closed in 2017/18 SAFS assisted with advice and guidance to staff/mangers, and also issued 49 warning letters to customers across a number of service areas including the housing team.
- 2.10 SAFS works jointly with the DWP on cases where tax support is linked to housing benefit and other state benefits and this work, which has been piloted since 2016 at a small number of Councils, has been so successful it is now being rolled out nationally from late 2018.

**Case study 1:**

*A referral, received from a member of the public, alleged that a Letchworth resident had undeclared capital whilst in receipt of housing benefits and council tax support between 2015 and 2016.*

*Subject was identified as having a number of bank accounts with HBOS and Lloyds and an ISA containing around £19k which they had not declared when they had made claims for benefit.*

*In interview, when the subject was shown the statement of accounts obtained, and questioned about a £10,000 deposit they stated 'it is none of your business'. When questioned about why they had not declared this money to the council the subject stated that 'I did not know I had to declare it'*

*This case was relatively minor with overpayments of benefit limited to just under £5k and when the subject was offered a financial penalty as an alternative to prosecution she accepted this and paid the fine and the overpaid benefits in full.*

**Case study 2:**

*This case also related to an allegation of undeclared capital as the subject was suspected to have received £90k*

*During the course of the investigation, through SAFS working with the Benefit and Housing Needs Team the subject was found to have had two periods of undeclared capital.*

*In the first in 2013 the subject received £23k from the sale of a property and during a second period in 2016 the subject received a further £90k from a relative.*

*This is an example of SAFS working with a number of teams to resolve the investigation. Making the extra enquiries resulted in a larger period of fraud being detected beyond that of the initial allegation.*

*In all the subject was overpaid just over £4k and a further £5k of loss was prevented. The subject has repaid these sums in full and has paid an administrative penalty as an alternative to prosecution.*

- 2.11 SAFS completed the delivery of a framework contract for all councils in Hertfordshire to have reviews of council tax discounts and exemptions conducted to improve revenue collection and prevent fraud. These services are provided with a split in costs between Hertfordshire County Council, the Police and Crime Commissioner and Hertfordshire's District and Borough councils (apportioned as per council tax precepts).
- 2.12 SAFS have worked very closely with parking enforcement officers across the District and Borough Councils to bring prosecutions for persistent misuse of Blue Badges by third parties. This partnership approach resulted in eleven prosecutions for Blue Badge abuse in 2017/2018, across all SAFS Partners, and another eight Blue Badges being cancelled for suspected misuse.
- 2.13 SAFS assisted the Council's in complying with the requirements of the National Fraud Initiative (NFI) 2016/17. The NFI is a national anti-fraud data sharing exercise, conducted by the Cabinet Office every two years, across local and central government to identify potential fraud.
- 2.14 SAFS are working with a number of housing providers across the County including North Herts Homes, Howard Cottage, Aldwyck Housing and Clarion Housing all of whom provide social housing in the Council's catchment area. Working with these landlords ensures that misuse of social housing, which is crucial to the Council, can be professionally investigated and where appropriate recovered and made available to those most in need of it.

**Case study 3:**

*After the training SAFS delivered to the Councils Housing Needs Team in late 2017 Housing Officers made two referrals where suspicion had arose following use of credit reference checks, (provided via SAFS licenses with the National Anti-Fraud Network) indicated that two housing applicants may have lied about their address history to obtain housing..*

*On further investigation SAFS secured sufficient evidence to prove that both subjects had made false applications for housing.*

*In the first case the subject declared that he had lived with his mother, when in fact he lived with his partner in Northamptonshire.*

*In the second case the subject had declared that she was homeless and living in her car, SAFS enquiries found that the subject had been living in Biggleswade and had voluntarily left the address with significant rent arrears.*

*Both subjects were prevented from entering the housing register and banned from applying for 5 years as a result of their fraudulent housing applications.*

- 2.15 SAFS have arranged specialist free training events for staff, covering areas including ID fraud and application fraud. SAFS continues to work with front-line staff and issue alerts and warnings of new and emerging fraud threats.

### **3. Transparency Code- Fraud Data**

- 3.1 The Ministry for Housing Communities and Local Government (MHCLG) published a revised Transparency Code in February 2015, which specifies what data local authorities must publish.

- 3.2 The Code also recommends that local authorities follow guidance provided in the following reports/documents:

CIPFA: *Fighting Fraud Locally Strategy*

([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/118508/strategy-document.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/118508/strategy-document.pdf)).

The National Fraud Strategy: *Fighting Fraud Together*

(<https://www.gov.uk/government/publications/nfa-fighting-fraud-together>)

CIPFA Red Book 2 – *Managing the Risk of Fraud – Actions to Counter Fraud and Corruption*

([http://www.cipfa.org/-/media/files/topics/fraud/cipfa\\_corporate\\_antifraud\\_briefing.pdf](http://www.cipfa.org/-/media/files/topics/fraud/cipfa_corporate_antifraud_briefing.pdf))

- 3.3 The Code requires that Local Authorities publish the following data in relation to Fraud. The response for North Herts District Council for 2017/18 is in **Bold**:

- 1 Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers.

**Nil. (The Council is a Partner to the Hertfordshire Shared Anti-Fraud Service and makes use of the National Anti-Fraud Network (NAFN) to conduct such enquiries on the Council's behalf)**

- 2 Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud – **1.5 FTE**

- 3 Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists – **1.5 FTE**

- 4 Total amount spent by the authority on the investigation and prosecution of fraud - **£80,000**

- 5 Total number of fraud cases investigated - **42 Cases investigated and closed in year**

- 3.4 In addition, the Code recommends that local authorities publish the following

- Total number of cases of irregularity investigated-

**See 5 above**

- Total number of occasions on which a) fraud and b) irregularity was identified.

**31**

- Total monetary value of a) the fraud and b) the irregularity that was detected.

**£336,000 of fraud losses & £149,000 of fraud savings/prevention**

- Total monetary value of a) the fraud and b) the irregularity that was recovered.

**Not recorded.**



**North Hertfordshire District Council  
Anti-Fraud Plan 2017/2018**

**in partnership with**

**Hertfordshire 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 Hertfordshire 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 to measure the Council's effectiveness against its Policy 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 (NAO) and the Chartered Institute for Public Finance and Accountancy (CIPFA).

### National Context.

The Chartered Institute for Public Finance and Accountancy (CIPFA) *Local Government Counter Fraud and Corruption Strategy (2016-2019)* included a summary of fraud losses across councils in England.

- Actual fraud losses reported by local government in 2013 totalled £207m (this excludes housing benefit)
- Hidden fraud loss for local government was estimated at £1.9bn.
- As admitted previously by the National Fraud Authority in 2013 the scale of fraud against local government is large, but difficult to quantify with precision.
- The strategic response to fraud threats contains three main principles 'Acknowledge/ Prevent/ Pursue'.

In its 2015 publication '*Code of practice on managing the risk of fraud and corruption*' CIPFA highlights five principles outlining public bodies 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.

Appendix A- NHDC/SAFS Anti-Fraud Plan 2017/18

SAFS/ NHDC Team Business Plan 2017 2018

Mission	Objectives	Goals	Strategies	Measures/Success Criteria	Responsibility
<b>ACKNOWLEDGE</b>	<b>ACKNOWLEDGEMENT</b> The risk of fraud the the Councils responsibility to prevent and investigate fraud	→ Show the Councils Willingness to Combat Fraud	→ Anti- Fraud Strategy Membership of SAFS Internal Audit Member Support	→ Have in place an Anti-Fraud and Corruption Strategy Retaining Board Membership of SAFS Have in place an effective IA Plan and Audit Committee Policies to deal w ith Money Laundering/ Bribery/ Whistleblow ing/ Sanctions	s.151 Officer/Head of Legal s.151 Officer SIAS Head of Legal
	<b>FRAUD AWARENESS</b> Promote an effective anti fraud culture w ithin the Council	→ Enhance the level of fraud aw areness internally and externally	→ Local New s Media Promote Fraud Team Fraud Aw areness Training Internal Aw areness	→ Issue a press release for every successful prosecution in 2017/2018 Promotion of internet fraud pages (SAFS) and local media exposure Deliver five fraud training aw areness trainging sessions to Council Staff, or tailored training as requested by services Conduct an E-Survey of fraud aw areness across officers	SAFS/Comms SAFS/Comms SAFS SAFS
	<b>CUSTOMER SERVICE</b> Service performance is managed to the highest standards so that agreed levels of service are met	→ Ensure customers and staff are informed about counter fraud w ork	→ Customer Service R&B Relationship Meeting SAFS Champion Reports to Audit Comms	→ Issue customers w ith information leaflets w hen attending interview s Quarterly meetings w ith R&B Service and agree SLA Quarterly meetings w ith NHDC SAFS Board Rep 2 Reports to FARC	SAFS SAFS SAFS/s.151 Officer SAFS/s.151 Officer
	<b>PERFORMANCE</b> Maximize performance through robust risk assessment and quality investigation w ork.	→ Be recognized as a high performing and successful fraud team.	→ Quality Fraud Referrals Individual Targets Data Matching Fraud Referrals Performance Report	→ 100% risk assessment on all fraud referrals received SAFS CFO- Set PMDS Targets to match NHDC KPIs NFI Data Matches 2017 to be review ed in year Monitor source of fraud referrals each quarter Issue a performance report in April 2018	SAFS SAFS s.151 Officer SAFS SAFS
<b>PURSUE</b>	<b>QUALITY INVESTIGATIONS</b> Undertake high quality investigations maximizing all investigative resources and achieving value for money	→ Ensure that investigations comply w ith the law and are beyond reproach	→ Interview Under Caution Sanction Files Witness Statements Legal Services	→ SAFS management checks on all sanctions issued File management checks on live caseload 100% check on w itness statements used in prosecution cases promote case conferences betw een Solicitors & Investigators	SAFS SAFS SAFS SAFS/ Head of Legal
	<b>SANCTIONS/PROSECUTIONS</b> Instigate legal sanctions to counter criminal behaviour	→ Ensure the prosecution of fraud and dishonesty in appropriate cases	→ Prosecutions Formal Cautions Admin Penalty Legal Service Liaison	→ Ensure all cases suitable for sanction are review ed in line w ith Policy Ensure that the Councils makes use of civil penalties w here appropriate Ensure that the use of Administrative Penalties is maximised Work w ith NHDC Legal to proscute cases and recover costs	SAFS SAFS/Head of R&B SAFS/Head of R&B SAFS/ Head of Legal

### SAFS Resources 2017/2018

#### **Budget**

In December 2016 the SAFS Board accepted a report from the SAFS Manager to restructure and reorganise the Service from April 2017/2018. This restructure would result in an increase in fees for all Partners. The Board agreed that the annual fee for District Councils, who did not hold housing stock, would be fixed to £80,000 +VAT. 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 each year at 1% from 2019 onwards.

It has been agreed that the service would be allowed to build up a small operating reserve but should this be exhausted all Partners agree to meet any shortfall in Budgets equally.

#### **Staffing**

The full complement of SAFS now stands at 14.5 FTE's; 1 Manager, 2 Assistant Managers, 8 Investigators and 2 Intelligence Officers. The Team is also supported by 1 FTE Data-Analyst and 0.5 FTE Business Support who are funded from SAFS Budgets.

For staffing – NHDC will have exclusive access to 1 FTE Investigator, access to intelligence functions of the service, all data-matching services being offered through the local data-warehouse and call on one of the Assistant Managers for quarterly liaison meetings, management meetings and two FAR Committees reports per annum. SAFS also have access to an Accredited Financial Investigator (AFI) and criminal litigation services.

**Appendix A- NHDC/SAFS Anti-Fraud Plan 2017/18**

**KPIs for NHDC 2017/2018**

KPI	Measure	2017/2018 Target	Quarterly Target	SAFS Project Aims
1	Provide an Investigation Service	1 FTE on call at NHDC (supported by SAFS Intelligence/ Management). Membership of NAFN Membership of CIPFA Counter Fraud Centre Access to Case Management System (CMS) Local Data Hub Fraud training events for staff*	100% of all	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. Based on the Methodology agreed by SAFS Board	£100k From fraud identified and savings/prevention	£25k	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	25	Improve the reach into the areas of non-benefit and corporate fraud within the county.
4	Success rates for cases investigated. This will ensure that quality investigations are undertaken.	50%	50%	Create a recognised centre of excellence able to disseminate alerts and share best practice nationally.
5	Conduct Data-Matching using the local data-hub, NFI and other data-matching/mining.	Data-Hub for local data matching. Access to NFI output. County wide Council Tax Review Framework.	100%	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) = £62k. Costs for NAFN/CIPFA/CMS/ Data Hub = £10k. Costs for 5 training events = £2.5k.*

### SAFS - Standards of Service.

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 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 identify fraud and prevent fraud occurring.
  - The data-warehouse will be funded by SAFS and located in accordance with Data Protection Act requirements.
  - The data-warehouse will be secure and accessible only by named 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 to as they choose. 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 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, fully trained and/or accredited to undertake their duties lawfully, or be working towards such qualifications.
8. All SAFS investigations will comply with legislation including DPA, PACE, CPIA, HRA, RIPA\* and all relevant policies of the Council.
9. Reactive fraud investigations.
  - All reported fraud will be actioned by SAFS within 10 days.
  - The Council will be informed of all reported fraud and how SAFS are going to deal with this.
  - 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. Decisions on imposition of any sanction will lay with the Council but the issue of any penalty will be resolved locally on a case by case basis.
  11. SAFS will provide reports through the SAFS Board on progress and to the Council's Audit Committee.
  12. 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, Police and Criminal Evidence Act, Criminal Procedures and Investigations Act, Human Rights Act, Regulation of Investigatory Powers Act.*

## Appendix B- Reported fraud/ outcomes and values 2017/18

NHDC Fraud Stats 2017/2018									
<b>FRAUD REFERRALS</b>									
<b>REFERRAL SOURCES</b>									
TOTAL	Staff	Public	Proactive	Other Agency					
159	97	50	6	6					
<b>REFERRAL TYPES</b>									
TOTAL	CTRS/HB	Discounts	Housing	Blue Badge	NNDR	Staff	Other		
159	136	4	14	2	3	0	0		
<b>CASES CLOSED</b>									
<b>ALL CASES CLOSED</b>									
TOTAL	Rejected	Intervened	Proved	Not Proved					
159	58	59	31	11					
<b>POSITIVE CASES CLOSED</b>									
Total	% Positive	Sanctioned	Prosecuted	Property recovered	Blue Badge Cancelled	Application withdrawn	Employee disciplined	Employee Dismissed	Proved No Sanction
31	73%	14	4	0	0	0	0	0	13
<b>FINANCIALS</b>									
<b>FRAUD LOSSES</b>									
TOTAL	CTAX	Blue Badge	Housing	Staff	NNDR	Insurance	HB	Other	
£336,514	£82,826	£0	£0	£0	£0	£0	£253,688	£0	
<b>FRAUD SAVINGS/ FUTURE REVENUE</b>									
TOTAL	CTAX	Blue Badge	Housing	Staff	NNDR	Insurance	HB	Other	
£149,951	£25,447	£500	£36,000	£0	£0	£0	£88,004	£0	
<b>FINANCIAL BREAKDOWN</b>									
	Loss Recoverable	Loss Non Recoverable	Revenue	Savings					
Housing Benefit	£253,688		£101,475	£ 88,004	Rev for HB is from DWP Subsidy/ Savings is value of prevention				
Council Tax	£82,826		£25,447		Rebill value for Ctax				
Housing Tenancy				£ 36,000	Based on cost of temp accomodation				
Blue Badge			£500		Based on additional parking revenue				
Other					Savings through prevention				
<b>Total</b>	<b>£336,514</b>		<b>£127,422</b>	<b>£ 124,004</b>					
<b>FINANCIAL SANCTIONS APPLIED</b>					<b>VALUE OF SANCTIONS APPLIED</b>				
TOTAL	Ad-pen	Caution	Civil penalty		TOTAL	Ad-pen	Civil penalty		
10	6	0	4		£490	£1,914	£840		

## Appendix C- SAFS KPI Performance 2017/18

KPI	Measure	Target	Achieved in Year	SAFS Project Aims
1	Provide an Investigation Service	1 FTE on call at NHDC (supported by SAFS Intelligence/ Management). Membership of NAFN Membership of CIPFA Counter Fraud Centre Access to Case Management System (CMS) Local Data Hub Fraud training events for staff*	<ul style="list-style-type: none"> <li>1 FTE on site supported by SAFS Management and Intel .5 FTE</li> <li>Training delivered, including new I-Learn Counter Fraud package for all staff</li> <li>CMS and Data-Hub operational</li> </ul> <b>Membership of :</b> <ul style="list-style-type: none"> <li>CIPFA Counter Fraud Centre,</li> <li>National Anti-Fraud Network</li> <li>County Council CF Network</li> <li>London Fraud Forum &amp; LBFIFG</li> </ul>	<p>Ensure ongoing effectiveness and resilience of anti-fraud arrangements.</p> <p>Deliver a return on investment for the Council's financial contribution to SAFS.</p>
2	Identified Value of Fraud prevented/ detected. Based on the Methodology agreed by SAFS Board 2017	£100k From fraud identified and savings/prevention	<ul style="list-style-type: none"> <li>£336,000 Fraud losses</li> <li>£149,000 Fraud savings / revenue</li> </ul> <b>In addition SAFS also :</b> <ul style="list-style-type: none"> <li>Prosecuted four cases</li> <li>Applied financial penalties or cautions on 14 occasions</li> </ul>	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	159 Allegations Received	Improve the reach into the areas of non-benefit and corporate fraud within the county.
4	Success rates for cases investigated. To ensure focus on quality investigations	50%	73% (31 Cases proved from 42 investigated) SAFS also reviewed or provided advice in 59 other matters	Create a recognised centre of excellence able to disseminate alerts and share best practice nationally.
5	Conduct Data-Matching using the local data-hub, NFI and other data-matching/mining.	Data-Hub for local data matching. Access to NFI output. County wide Council Tax Review Framework.	<ul style="list-style-type: none"> <li>SAFS Data Sharing Agreement reviewed 2018.</li> <li>SAFS delivered the County wide Council Tax Review Framework- predicted to identify £5m of new review by 2021.</li> </ul>	Create a data hub for Hertfordshire.

**For the Council 'Fraud Loss' is where a fraud has occurred resulting in a debt that can be recovered through civil/statutory routes. 'Fraud Savings' reflect attempted frauds that have been prevented or an ongoing 'Loss' that has been stopped.**



**FINANCE, AUDIT & RISK COMMITTEE  
24 SEPTEMBER 2018**

**PART 1 - PUBLIC DOCUMENT**

TITLE OF REPORT: ANNUAL GOVERNANCE STATEMENT 2017/18: UPDATED ACTION PLAN FOR 2018/19  
REPORT OF: SENIOR POLICY OFFICER  
EXECUTIVE MEMBER: [NON-EXECUTIVE FUNCTION]  
COUNCIL OBJECTIVE: RESPONSIVE AND EFFICIENT

**1. EXECUTIVE SUMMARY**

For the Finance, Audit & Risk Committee to note the progress made against the Action plan for 2018/19. This Action plan was presented to the Committee as part of the final Annual Governance Statement (AGS) for 2017/18 at the July 2018 meeting.

**2. RECOMMENDATIONS**

That the Committee:

- 2.1. Notes the progress made against the individual actions as outlined in the Action plan for 2018/19 at Appendix A.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 The AGS must be considered by Members of the Committee and approved under Regulation 6(4)(a) of the Accounts and Audit Regulations ('AAR') 2015/234, before the Statement of Accounts.
- 3.2 The Committee is the legal body with responsibility for approval of the AGS.
- 3.3 Reviewing the AGS Action Plan during 2018/19 will provide the Committee with assurances that NHDC is examining and where necessary improving 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. As reported to the Committee on 18<sup>th</sup> June 2018 [[Draft Annual Governance Statement \(AGS\) 2017/18 report](#) ] the governance review and AGS format is based on the 2016 CIPFA/ SOLACE Framework.
- 5.2. At the Committee on 30<sup>th</sup> July 2018, Members were asked to approve the AGS for 2017/18 and the attached Action Plan for 2018/19. The external auditors Ernst & Young and SIAS were provided with a draft of the self- assessment Ernst & Young for comments.
- 5.3. Any comments, or queries have been included or links provided following this consultation as appropriate.

## **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 Reference is made to the report of 18<sup>th</sup> June 2018, which sets out the legal requirements for preparation, review and approval of the AGS, together the matters included/ and parties involved in that process. As indicated this must be considered by Members of the Committee and the AGS approved under Regulation 6(4)(a) AAR 2015 *before* the relevant authority approves the Statement of Accounts (Regulation 9(2)(b)) at this Committee meeting. The AGS reviews the systems in place and identifies any actions to be undertaken in the forthcoming year.
- 7.2 The review was undertaken against the relevant CIPFA/ SOLACE Framework, which is the *Delivering good governance in Local Government Framework 2016 Edition* and any CIPFA/ SOLACE guidance<sup>1</sup>. The AGS was prepared following an in-depth review/ input and scoring of arrangements by SMT against the Framework 2016 Principles (in accordance with the guidance<sup>2</sup>). The detailed self-assessment document has not been appended. It has been loaded on the Council's Corporate Governance internet page and will remain on the site until the next review is undertaken [[SMT AGS self-assessment document](#)].
- 7.3 The format of the AGS conforms to recommended practice, as per the advice provided by CIPFA: a '*meaningful but brief communication*'; there is no requirement to repeat all the arrangements that have been comprehensively assessed. Nevertheless, the AGS highlights some key areas under the Principles, overall conclusion on the arrangements and appends the Action Plan.

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<sup>1</sup> CIPFA/SOLACE Delivering good governance in Local Government Guidance Notes for English Authorities 2016 Edition.

<sup>2</sup> As above (*ibid*)

## **8. RELEVANT CONSIDERATIONS**

- 8.1. The preparation of the AGS provides the Council with an opportunity to consider the robustness of its governance and internal control arrangements. It highlights areas where governance can be further improved or further reinforced. The approved AGS for 2017 can be found on the Council's website [[Annual Governance Statement 2017/18](#)].
- 8.2. Appendix A notes the progress made against the individual actions against the Action Plan for 2018/19. In respect of Action point 7 - '*Contract Guides to be updated to consider reflecting appropriate ethical practices*' it is suggested that it is removed. The Service Director for Resources confirms that the Contract and Relationship Management Guide provides a significant focus on building and maintaining effective working relationships with contractors. It highlights a number of the factors to consider in doing this, which includes ethics. This guide is reviewed on an annual basis, and this will include a consideration of whether there is sufficient advice on managing situations in an ethical way.
- 8.3 Further amendments to the AGS Action Plan for 2018/19 will be reported to this Committee again in or around March 2019. Any revisions to the Local Code of Governance will be presented at that time.

## **9. LEGAL IMPLICATIONS**

- 9.1 Under the Local Audit and Accountability Act ('LAAA') 2014/ AAR 2015 Regulations the 2017/18 AGS must be approved by this Committee by 31<sup>st</sup> July for financial year 2017/18. Otherwise the legal implications are set out above.
- 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 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 Senior 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 website<sup>3</sup>.

## **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 - Action plan for 2018/19 and corresponding actions

## **16. CONTACT OFFICERS**

- 16.1 Reuben Ayavoo 01462 474212 Senior Policy Officer:  
[Reuben.ayavoo@north-herts.gov.uk](mailto:Reuben.ayavoo@north-herts.gov.uk)

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<sup>3</sup> <https://www.north-herts.gov.uk/home/council-performance-and-data/policies/equality-and-diversity>



16.5 Tim Everitt, Performance & Risk Officer 01462 474646  
Email: [tim.everitt@north-herts.gov.uk](mailto:tim.everitt@north-herts.gov.uk)

## **17. BACKGROUND PAPERS**

17.1. The Finance, Audit & Risk Report and Appendix A (18<sup>th</sup> June 2018 linked above).

17.2. The SMT AGS self-assessment is on the Corporate Governance Page: <https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance>. This contains links to further relevant background documents, reports, Policies and Guidance. The AGS also refers to documents and where possible, links have been provided to relevant pages and or documents.

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Action	Officer update
<p>1a. Implementation of Cabinet resolutions of 28 March 2017<sup>1</sup> on Data Protection (DP)/ Freedom of Information SIAS review recommendation.</p> <p>1b. To review and potentially introduce new Member training e-learning system from June 2017 [Service Director – Customers</p>	<p>1a.</p> <ul style="list-style-type: none"> <li>• Monthly reports are generated by the HR Learning &amp; Development team for the Service Director - Customer and those officers who have not completed the on-line DP Training are contacted and reminded that they are required to complete the training. Service Directors are also updated.</li> <li>• The Service Director for Customers confirmed that that auto-forwarding was switched off on 26<sup>th</sup> June 2017.</li> <li>• 22 Members registered as Data Controllers with the ICO's Office</li> </ul> <p>1b.</p> <ul style="list-style-type: none"> <li>• E-learning training -No update available at this stage [<i>ongoing</i>].</li> </ul>
<p>2. Executive member for Policy to review Member leadership/communicating shared values (sub-principle A1ii) as part of Corporate Plan review process (Chief Executive with Group Leaders' input)</p>	<p>The Deputy Chief Executive with the Learning &amp; Development Manager are developing new cultural shared values for Members and staff. This follows on from an IIP highlighted a requirement to <b><i>“bringing greater clarity to organisational objectives and expected behaviours”</i></b> as a key element to the organisations development. [<i>ongoing</i>]</p>
<p>3. Constitutional review to change sections 12 &amp; 14 [Monitoring Officer].</p>	<p>Constitution changes to reflect the changes in section 12 &amp; 14 were approved under Delegated authority on 31 May to come into force for the new structure on 1 June. Subsequent changes were approved at Council on 18 July 2018) [<b>COMPLETED</b>].</p>
<p>4. Delegated Decision Guidance under consideration in respect of delegated planning decisions [Monitoring Officer/ Deputy Monitoring Officer]. Delegated Planning Decision report template being reviewed in the light of a number of court cases</p>	<p>Relevant planning officers have been advised that all delegated decisions are to be documented on an updated planning decision template, with hard copies of this and supporting documents supplied upon request. If this 2014 Regulations, exemption does not apply, then (with the exception of delegated Planning decisions which shall be uploaded on to the planning website page)'. The Guidance to Councillors and Officers has been updated and notified to staff. MHCLG has stated that there are no plans to amend existing legislation but is considering whether there is any guidance that could be given to assist local authorities. [<b>Completed</b>].</p>
<p>5. SAFS to roll out an e-learning anti-fraud training package for employees during 2017 [SAFS Manager]</p>	<p>SAFS reported at the March 2018 FAR meeting that all staff/members had implemented Anti Fraud Training events. SAFS have now provided an e-learning package that is more tailored to District Councils. This is now being reviewed to make sure that its consistent with all the Council's policies before being made available to all staff. SAFS officers are also available to provide general advice or guidance to officers on emerging fraud threats or those matters requiring an immediate response. [<i>ongoing</i>].</p>
<p>6. IIP assessment 2017 – review outcome by March 2018 [Corporate Human Resources Manager]</p>	<p>The organisation achieved accredited status under the new generation 6 standards in August last year which remains in place for a three year period. A revised review and action plan was produced by a new IIP assessor as a result of concerns about the quality and</p>

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

Appendix A Action Plan update

	depth of the original IIP report <i>[ongoing]</i> .
7. Contract Guides to be updated to consider reflecting appropriate ethical practices [Service Director - Resources /Payment & Reconciliations Manager]	Proposal to remove – please note report section 8.3
8. Job descriptions, delegations and organisational chart to be updated on website following reorganisation during 2017 [Corporate Human Resources Manager]	This work is ongoing. The Service Directors are all now all in place. Directorates are being realigned to new responsibilities and ensure resilience. <i>[ongoing]</i>
9. To consider ways to feedback results following consultation [Communications Manager]	In place of the proposed Task and Finish Group on Consultation, a member/officer group will consider the Consultation Strategy and the Citizens Panel and with a view to reporting back to the Overview and Scrutiny Committee once the work is completed. The Communications manager has completed an interim report of the communication strategy. This will be considered alongside the work of the group above. Awaiting outcome of the identified group and any final recommendations <i>[ongoing]</i> .
10. Investigate the possibility of realistic and cost effective Social Value report/ Cumulative Analysis Action for 2017/18 [Senior Management Team]	This was discussed at Senior Management Group and this resulted in a number of examples where Social Value has been used and where there is potential for it to be used. Social Value will continue to be raised at an early stage of the procurement process as this is the best time to build it in. The examples of where it has been used will continue to be updated with new procurements. This will be reviewed by the Contract and Procurement Group on an annual basis to learn from good practice and to learn from any missed opportunities. <i>[on-going]</i>
11. Review O&S Committee once Central Government's national inquiry completed [Senior Management Team].	The report and government responses will be reviewed by the SMT/O&S officer and the recommendations will be applied where relevant following any updated Guidance and the LGA Peer review <i>[ongoing]</i> .
12. Preparation for General Data Protection Regulation 'GDPR' implementation by May 2018; Development of new Privacy forms statements and additional training for members and staff [Service Director – Customers]	Preparation and actions for GDPR implementation complete. Privacy statements were in place for May 2018 deadline <i>[complete]</i>  GDPR e learning training has been rolled out to staff and members – 91% of staff have completed/in progress of completion. 33% of members have completed/in progress of the e-learning module <i>[ongoing]</i>
13. Implementation of any outstanding SIAS recommendations [Service Director – Resources]	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, assigned to Managers and with target dates for completion. All audit actions currently showing as “green” as at 07/09/2018 <i>[ongoing review of recommendations during 2018/19]</i> .
14. Establish an officer group to explore the implementation of the Gender Pay Gap Action report recommendations.	An officer lead group is considering the recommendations and considering the best practice guide from Government Equalities Office evidence based actions. <i>[Complete]</i> .

**FINANCE, AUDIT & RISK COMMITTEE  
24 SEPTEMBER 2018**

**PART 1 - PUBLIC DOCUMENT**

TITLE OF REPORT: SIAS ANNUAL REPORT 2017/18

REPORT OF THE CLIENT AUDIT MANAGER, SHARED INTERNAL AUDIT SERVICE

To consider the Shared Internal Audit Services Annual Report 2017/18.

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# Shared Internal Audit Service

## Annual Report 2017/18

## Annual Report Contents

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Hertfordshire County Council



## Introduction and Highlights

Welcome to the Shared Internal Audit Service (SIAS) Annual Report for 2017/18.

Since the Service was established in 2011, one of its key business delivery objectives has been to work in a manner that demonstrates a practical understanding of the pressures that its partners face. This is something that is even more important given the current financial climate.

To this end, in 2017/18 SIAS worked with partners to revise the Service's structure with a view to accommodating an agreed reduction in the level of audit work commissioned whilst still ensuring that the Service was able to provide appropriate levels of coverage to fulfil its statutory obligations.

As part of this process, SIAS sought to ensure that client audit plans were delivered with the optimum blend of internal and external resource; something that would not only satisfy its current client commitments in the most efficient and cost effective manner, but which would also future proof the Service in the medium to long term.

All of this has only been possible with the commitment and dedication of both, the in-house team and our external service provider, as well as the co-operation of our partners. When looking to the future, the Service will continue to combine its understanding of local government practices with a growing knowledge of the risks and controls associated with private sector business approaches; something that is needed to help partners as they evolve in that direction.

We are very proud of the work of the SIAS Team and are delighted to be able to share some of the highlights of our working year in this report.

**Terry Barnett and Chris Wood**

**Head of Assurance for the Shared Internal Audit Service /  
SIAS Audit Manager**

**June 2018**

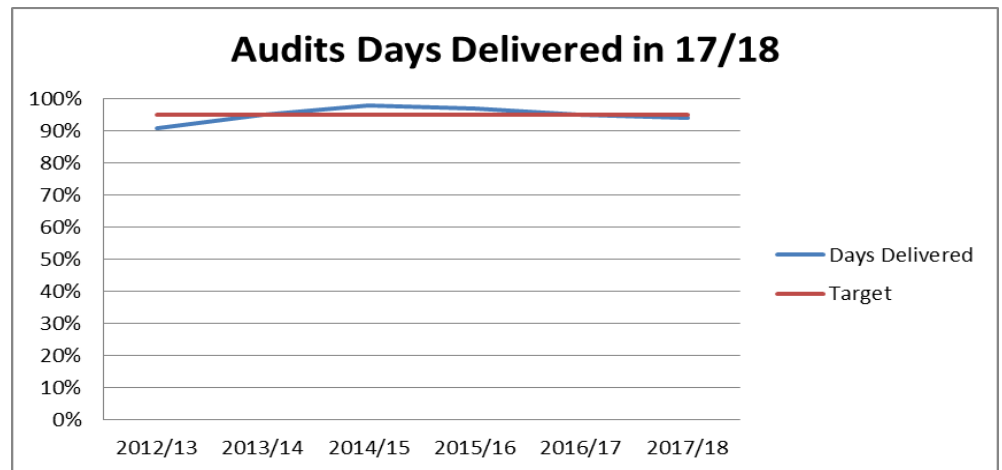


## Levels of Delivery

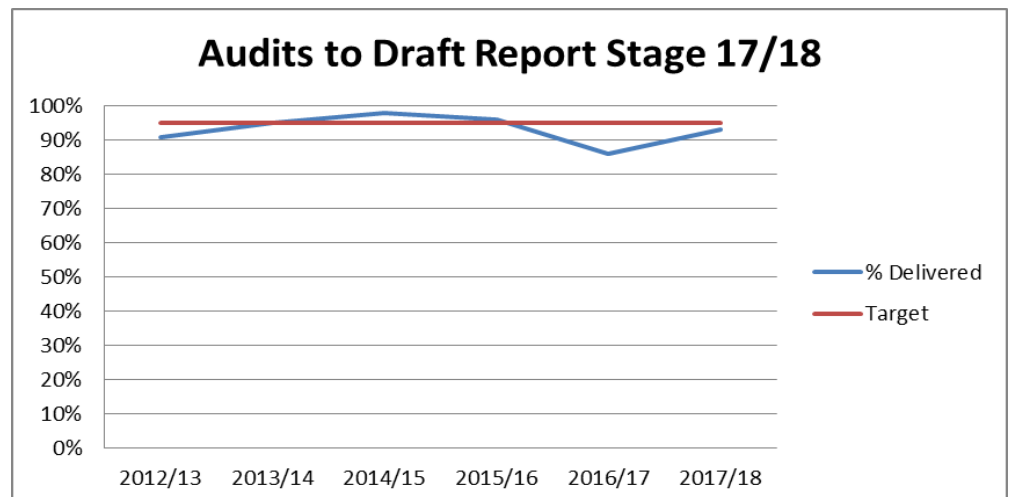
Whilst the Service faced some challenges during the year arising from staff sickness absences and vacancies held over in lieu of the service restructure, it nonetheless very nearly achieved its overall target of delivering 95% of days commissioned by clients. In the final analysis, this was 94% and is a testament to the hard work and resilience of the SIAS Team.

Despite the challenges referred to above, the Service was also able to deliver 93% of its audit reviews to draft report stage by the close of the year and through the prioritisation of outstanding work in the final quarter ensured that this did not impact on the integrity of the assurance opinions given to clients.

**Figure 1: Percentage of audits days delivered**



**Figure 2: Percentage of audits to draft stage**



*Good performance despite resilience challenges...*

## Shared Learning - The Power of Partnership

Shared learning happens through the dialogue we have with others. It has long been part of the vision of our Board that the service acts to facilitate the sharing of learning across its partners. A shared learning culture, both formal and informal, is embedded through our team, our sister services within Assurance and across our partners and opportunities abound to publicise and promote issues big and small.

Over the course of 2017/18, our quarterly shared learning papers continued to be a regular feature at management boards, governance groups and team meetings across our partners. General learning points arising from our work and the wider local government environment have been disseminated through our regular papers with contributions from across our Assurance Service. The highlight of the last year was a special edition covering the topical issue of GDPR Preparedness. This dovetailed neatly with the rollout of GDPR audits across our partners. At the time of going to press on this Board report, planning had commenced on the next shared learning paper reviewing the high priority recommendations arising from our work across all partners.

In addition to our shared learning papers and newsletters, we hosted a very well received workshop for our partners and other stakeholders on Local Authority Trading and Commercial Governance, utilising the commercial expertise of our co-sourced audit delivery partners BDO.

*Our quarterly shared learning papers are now a regular feature at management boards, governance groups and team meetings across our partners*



During the course of the year, we facilitated a cross-partner process of self-assessment against the National Crime Agency's Serious Organised Crime Checklist and will be sharing the key themes arising from that exercise so that our partners can learn from mutual good practice.

Our involvement with 'Audit Together', a strategic alliance of similar audit partnerships, our audit delivery partners (BDO) and an array of contacts through bodies such as the Home Counties Chief Internal Auditors Group have been invaluable in sharing experiences and ideas that help us to develop as a service in response to client need and the ever evolving field of internal audit. Our staff, partners and Audit Committee members continue to provide helpful challenge, which causes us to pause and think about matters big and small, whether about assurance levels, recommendation priorities, professional judgement and intellectual curiosity or about our skills, performance, systems and culture.

## Developing Our Processes

SIAS is committed to providing its services to clients in the most cost effective and resilient way possible. The development of its in-house time recording and audit plan management system is an excellent example of a service development that has delivered on both counts.

For SIAS, a time recording system is an integral part of its business processes, providing the performance data for the Management Team to oversee progress on audit plan delivery for individual clients or the whole service. Similarly, it is an important element of the performance management mechanisms for the staff within the Service.

Since its creation in 2011 SIAS, had been using a modified version of a proprietary Audit Management System product, incurring costs for both licensing and maintenance. As the Service developed, it became clear that this solution was not able to provide the level of detailed management information that the Management Team required for effective performance management at a variety of levels. Further, the approach of using an external supplier always carried a risk associated with continuity of service.

To address these issues, the SIAS Management Team commissioned the County Council's Improvement Team to modify an existing time recording system that it had developed for another County Council Service. This new solution has now been in operation within SIAS since May 2017 and is successfully meeting the needs of the Service whilst also providing opportunities for further service improvements.

The technology for the new system is based around established Microsoft products (Excel and Access) and the costs associated with system maintenance are absorbed within existing corporate overheads. This has allowed the Service to not only secure a financial saving of circa £3,000 per annum but, more importantly, to future proof its existing business processes.

*Financial savings  
combined with  
greater resilience...*



## First Class Customer Service

In order to monitor our effectiveness and improve our service, at the end of each assignment we request the completion of a short satisfaction survey. We have been given and have acted upon invaluable improvement ideas, and we are proud of the fact that in 2017/18 we have received 98% satisfactory or higher feedback rating from our customers; an improvement on the previous year.

Some of the comments that accompany the formal scoring document are shown below:

- *“An excellent professional service was provided and we were kept informed fully throughout the audit”*
- *“Clear understanding of process in place, transition being applied and recognition of best practice much appreciated. Extremely prompt delivery of Final Report”*
- *“Very helpful report, answering key questions senior management were requesting”*
- *“Just to say thanks for the time and effort put into this audit, the process has helped me as the Property manager to not only influence and direct staff to tighten up their processes and procedures which has in the past sometimes been difficult but also given some really good recommendations for us to action to improve the overall management of evidence. I now have the power of 'Internal Audit says' to back me! Thank you”*

*“Very helpful report, answering key questions senior management were requesting”*



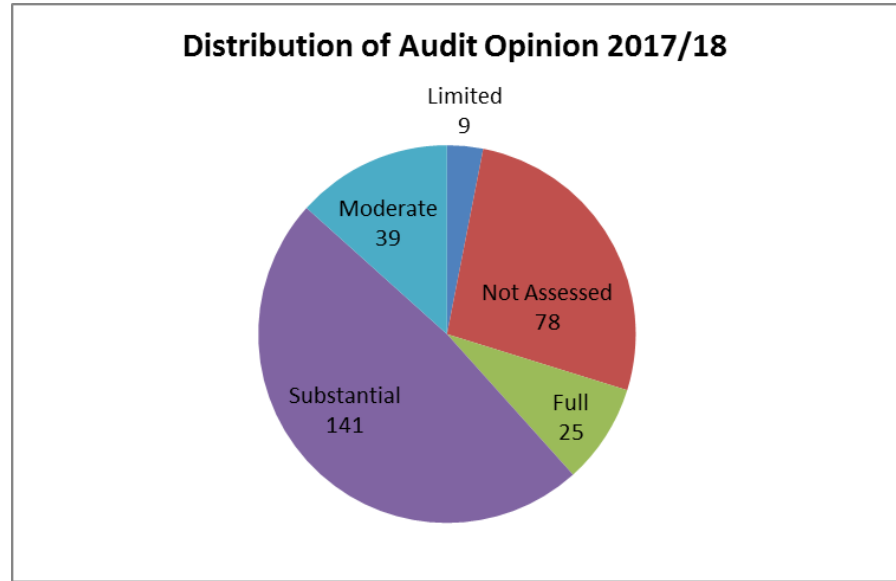
## Performance - Outcomes

SIAS worked on 292 assurance and other projects during the year, giving the assurance opinions and recommendations detailed in the charts below.

For those pieces which resulted in a formal assurance opinion, the distribution of opinions is set out in figure 3 below:

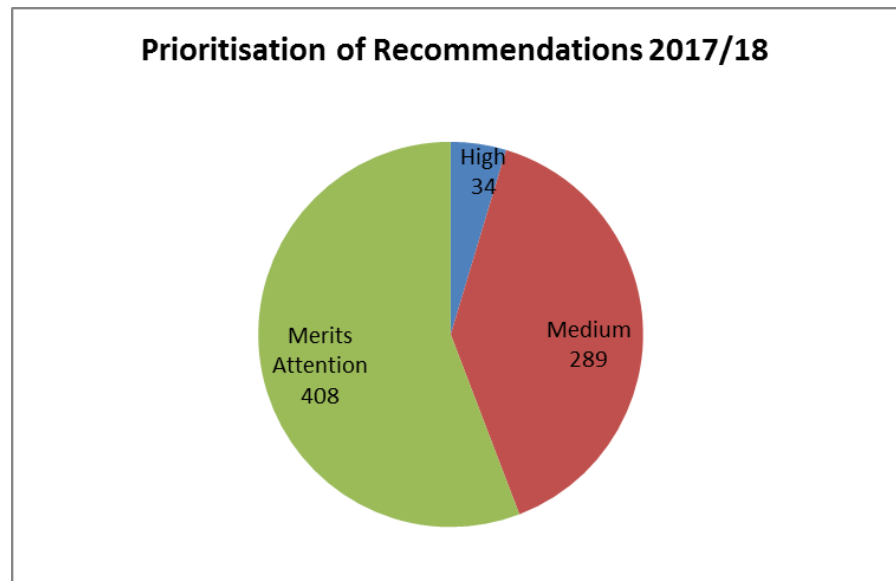
**Figure 3: Distribution of Audit Opinions 2017/18**

*292 assurance and other projects identifying 731 recommendations*



For those audits where recommendations were required, the priority ratings are set out in figure 4 below:

**Figure 4: Prioritisation of Recommendations 2017/18**



## Performance Indicators

The overall business performance of SIAS is monitored by the SIAS Board by means of a balanced scorecard which provides a range of measures by which progress can be evaluated.

The overall performance of SIAS against our key performance indicators is reported below.

**Table 1: SIAS Business Performance**

Indicator	Target	Actual as at 31 March 2017	Actual as at 31 March 2018	Commentary
Progress against plan: actual days delivered as a percentage of planned days.	95%	95%	94%	Despite resilience challenges in year, the service nonetheless came very close to achieving both of its targets.
Progress against plan: audits issued in draft by 31 March	95%	86%	93%	
Client satisfaction	Satisfactory and above	95%	95%	Continued good performance in this area

## Financial Performance of SIAS

SIAS began operating on a fully traded basis in 2012/13.

Appendix A sets out the summary financial position at 31 March 2018. The partners determined that the service should aim to build a small surplus and to consider the financial position of the service on a three year rolling basis.

The intention of this is to smooth the impact of any unforeseen events impacting on trading performance in future years.

## Future Developments



Following the completion of the SIAS restructure in 2017/18, the coming year has a strong focus on consolidation, stability and revisiting the 'nuts and bolts' of the service to ensure that we have sound foundations for the future.

Our focus will be on:

- Developing and enhancing the role of our Client Audit Managers,
- Reviewing and refining our shared learning offering,
- Updating our SIAS guidance, templates, processes and procedures,
- Further integrating and simplifying of our performance, work allocation and information systems,
- Revisiting training and skills needs, as well as technical updates,
- Retendering for our co-sourced audit delivery partners, and
- Completing recruitment to our new Trainee Auditor posts.

The changing face of service delivery within Local Government also presents the Service with new challenges and a need to provide higher levels of consultancy advice on the control aspect of the commercial ventures that clients are engaging in.

The increased use of, or access to, data analytics tools is likely to become a key feature in the work of the Service going forward. The use of these tools will allow the Service to facilitate delivery of the widest coverage of process driven areas.



## Our Board Members

The SIAS Board provides strategic direction and oversight for the partnership, bringing a wealth of local government experience and insight to our operation.

In 2017/18, our Board members were as follows:

<b>Clare Fletcher</b>	<b>Assistant Director (Finance and Estates)</b>	<b>Stevenage Borough Council</b>
<b>Sajida Bijle</b>	<b>Corporate Director</b>	<b>Hertsmere Borough Council</b>
<b>Steven Pilsworth</b>	<b>Assistant Director Finance, Resources &amp; Performance</b>	<b>Hertfordshire County Council</b>
<b>Ian Couper</b>	<b>Service Director (Resources)</b>	<b>North Hertfordshire District Council</b>
<b>Ka Ng</b>	<b>Executive Director – Resources, Environment and Cultural Services</b>	<b>Welwyn Hatfield Borough Council</b>
<b>Isabel Brittain</b>	<b>Head of Strategic Finance &amp; Property</b>	<b>East Herts Council</b>
<b>Jo Wagstaffe</b>	<b>Shared Director of Finance</b>	<b>Watford Borough Council and Three Rivers District Council</b>
<b>Terry Barnett</b>	<b>Head of Assurance</b>	<b>SIAS</b>

**SIAS cost centre: revised budget against outturn 2017/18**

	<u>Budget</u>	<u>Outturn</u>
	<u>£</u>	<u>£</u>
Salaries & Salary Related	1,145,981	1,061,892
Partner / Consultancy Costs	73,125	213,038
Transport	8,500	5,904
Supplies	18,483	9,048
Office Accommodation Cost	17,005	17,005
	<hr/>	<hr/>
Total expenditure	1,263,094	1,306,887
	<hr/>	<hr/>
Income	1,279,034	1,313,530
Net (surplus) / deficit	<b>(15,940)</b>	<b>(6,643)</b>

Levels of assurance	
Full Assurance	There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
Substantial Assurance	Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
Moderate Assurance	Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
Limited Assurance	There are significant weaknesses in key control areas, which put the system objectives at risk.
No Assurance	Control is weak, leaving the system open to material error or abuse.

Priority of recommendations	
High	There is a fundamental weakness, which presents material risk to the objectives and requires urgent attention by management.
Medium	There is a significant weakness, whose impact or frequency presents a risk which needs to be addressed by management.
Merits Attention	There is no significant weakness, but the finding merits attention by management.

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**FINANCE, AUDIT & RISK COMMITTEE  
24 SEPTEMBER 2018**

**PART 1 - PUBLIC DOCUMENT**

TITLE OF REPORT: SIAS PROGRESS REPORT 2018/19

REPORT OF THE CLIENT AUDIT MANAGER, SHARED INTERNAL AUDIT SERVICE

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## **North Herts District Council Audit Committee Progress Report**

24 September 2018

### Recommendations

Members are recommended to:

- Note the Internal Audit Progress Report for the period to 7 September 2018,
- Note the proposed amendments to the 2018/19 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
  - 2.6 High Priority Recommendations
  - 2.8 Medium Priority Recommendations
  - 2.9 Proposed Amendments to the 2018/19 Annual Audit Plan
  - 2.13 Performance Management

## Appendices

- A Progress against the 2018/19 Audit Plan
  
- B Implementation Status of High Priority Recommendations
  
- C 2018/19 Audit Plan Start Dates Agreed with Management
  
- D Assurance and Finding Definitions 2018/19



# 1. Introduction and Background

## Purpose of Report

- 1.1 This report details:
- Progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's Annual Audit Plan for 2018/19 as at 7 September 2018.
  - Implementation status of previously agreed high priority audit recommendations and request to agree removal of completed actions.
  - Proposed amendments to the 2018/19 Annual Audit report
  - An update on performance management information as at 7 September 2018.

## Background

- 1.2 The 2018/19 Annual Audit Plan was approved by the Finance, Audit and Risk Committee (the FAR Committee) on 21 March 2018.
- 1.3 The Committee receives periodic updates of progress against the Annual Internal Audit Plan. This is the second report giving feedback on the delivery of the 2018/19 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 The following final reports (all from the 2018/19 audit plan unless indicated) have been issued since 5 June 2018 (cut-off date for the SIAS Update Report for 18 June 2018 FAR Committee):

<b>Audit Title</b>	<b>Date of Issue</b>	<b>Assurance Level</b>	<b>Number of Recommendations</b>
Health and Safety	June 2018	Good	1 Low
General Data Protection Regulations	July 2018	Satisfactory	4 Medium
Hitchin Town Hall and Museum – Project*	August 2018	Satisfactory	1 Medium, 3 Low
Original Documentation Review	August 2018	Not Assessed	N/a
CCTV	August 2018	Limited	9 High

\* carry forward audit from 2016/17.

- 2.2 The CCTV audit was included as a full audit in the 2018/19 Annual Audit Plan for Stevenage Borough Council as the lead authority, with a supporting contribution of days from North Herts District Council, East Herts Council and Hertsmere Borough Council as members of the CCTV Partnership. Nine high priority recommendations were made in the CCTV audit relating to the following areas:
- a) Confirmation of the governance framework and the roles and responsibilities,
  - b) Establishment of a current Partnership Agreement,
  - c) Review of the terms of the Company Shareholders' Agreement,
  - d) Review/establishment of all Terms of Reference,
  - e) Review of Partner Authority Constitutions,
  - f) Establishment of a current five year Business Plan (18/19-22/23),
  - g) Review of financial management,
  - h) Review of performance monitoring, and
  - i) Review of the calculation and application of charges to Partner Authorities.
- 2.3 We have not included the high priority recommendations from the CCTV audit at paragraph 2.7 and Appendix B below as they are owned and monitored by Stevenage Borough Council and their Audit Committee.
- 2.4 In addition, the CCTV final audit report is being presented to the Joint Executive Committee (JEC) of the CCTV Partnership in October 2018. The JEC is made up of officers and Members from all partner authorities and will provide additional oversight and monitoring that the recommendations are progressing towards implementation. An overview and update of the implementation status of the recommendations can also be provided to the Finance, Audit and Risk Committee to ensure that it too has sufficient assurance in this regard.
- 2.5 Details on the status of all audits in this year's plan can be found in Appendix A.

#### High Priority Recommendations

- 2.6 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.
- 2.7 We have not made any new high priority recommendation, other than those from the CCTV audit, as a consequence of the work undertaken in the audits detailed in paragraph 2.2 above.

## Medium Priority Recommendations

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

<b>Audit</b>	<b>Summary of medium priority recommendations</b>
General Data Protection Regulations	<p>a) <b>Information Asset Register</b> – The findings from the information audit undertaken across the Council have not been collected into a complete information asset register.</p> <p>b) <b>Explicit Consent</b> – The Council does not have a procedure for obtaining and recording the explicit consent for its Cultural Services to process personal information.</p> <p>c) <b>Data Subject Requests</b> – The procedures for responding to data subject requests have not been updated to reflect the changes introduced under the GDPR.</p> <p>d) <b>Data Protection Officer</b> – The Council has not documented how it will maintain the independence of the Data Protection Officer or provide sufficient resources to allow them to fulfil their responsibilities.</p>
Hitchin Town Hall and Museum - Project	<b>Communications Plan</b> – The availability of a communications plan for the Hitchin Town Hall and Museum project.

## Proposed Amendments

2.9 At the request of management, the following audit has been cancelled and the remaining time budget has been moved to contingency:

- Election Support (2 days) – this audit has been cancelled as the support was not required during the election.

2.10 At the request of management, the following audit has been merged with the remaining time budget being moved to the primary Waste Contract – Client Services audit:

- Waste Contract – Green Waste Charging (6 days) – this audit has been merged with the later audit as officer availability is limited at this time. The scope of this audit will be completed as part of the wider Waste Contract – Client Services review due to commence in January 2019.

- 2.11 As a result of the above, contingency in the 2018/19 Annual Audit Plan for the Council currently stands at 13 days.
- 2.12 There have been no audits added to the 2018/19 Annual Audit Plan in the period since the last FAR Committee.

Performance Management

Reporting of Audit Plan Delivery Progress

- 2.13 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.

<b>Summary – 7 September 2018</b>			
<b>Status</b>	<b>No of audits at this stage</b>	<b>% of total audits (32)</b>	<b>Profile to date</b>
Draft / Final Report Issued	7	22%	31% (10/32)
In Fieldwork / Quality Review	5	16%	6% (2/32)
Terms of Reference Issued / In Planning	5	16%	13% (4/32)
Yet to be planned / Allocated	15	46%	50% (16/32)

Deferred	0
Cancelled from the plan	2

- 2.14 Annual performance indicators and associated targets were approved by the SIAS Board in March 2018.
- 2.15 As at 7 September 2018, actual performance for North Herts against the targets that can be monitored in year was as shown in the table below:

<b>Performance Indicator</b>	<b>Annual Target</b>	<b>Profiled Target to 7 September 2018</b>	<b>Actual to 7 September 2018</b>
<b>1. Planned Days</b> – percentage of actual billable days against planned chargeable days completed (excluding unused contingency)	95%	35% (123 / 347 days)	33% (113 / 347 days)
<b>2. Planned Projects</b> – percentage of actual completed projects to draft report stage against planned completed projects	95%	31% (10 / 32 projects)	22% (7 / 32 projects)

<b>3. Client Satisfaction with Conduct of the Audit</b> – percentage of client satisfaction questionnaires returned at ‘satisfactory’ level	100%	100%	100% (3 surveys returned)
<b>4. Number of High Priority Audit Recommendations agreed</b>	95%	95%	N/A – No high priority recommendations made

2.16 In addition, the performance targets listed below are annual in nature. Performance against these targets will be reported on in the 2018/19 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 2018/19 AUDIT PLAN AS AT 7 SEPTEMBER 2018**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
<b>Key Financial Systems</b>									
Integra 2 – General Ledger, Debtors and Creditors						25	Yes	0.5	Allocated
Corporate Debt Management						15	Yes	0.5	Allocated
Treasury Management						6	Yes		Allocated
Council Tax						10	Yes		Allocated
NDR						10	Yes		Allocated
Benefits & Rent Allowances						10	Yes		Allocated
Payroll						8	Yes		Allocated
<b>Operational Audits</b>									
Green Space Strategy Management						10	Yes	0.5	In Planning
S106						10	Yes	9	Quality Review
Crematorium						10	Yes	0.5	In Planning
Museum Services						10	Yes	9.5	Draft Report Issued
Learning Management System						10	Yes		Allocated
Overtime and Expenses						12	Yes	11	Quality Review
Apprenticeship Levy						10	Yes	2	ToR Issued
Homelessness Reduction Act						12	Yes	2	ToR Issued
General Data Protection Regulations	Satisfactory	0	0	4	0	15	Yes	15	Final Report Issued
Careline Alarm Receiving Centre Relocation	Good	0	0	0	2	6	Yes	6	Final Report Issued

**APPENDIX A – PROGRESS AGAINST THE 2018/19 AUDIT PLAN AS AT 7 SEPTEMBER 2018**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Home Improvement Agency						2	Yes	1.5	In Fieldwork
Original Documentation – Consultancy Review	Not Assessed	0	0	0	0	2	Yes	2	Final Report Issued
Capital Programme						10	Yes	1	ToR Issued
Health and Safety	Good	0	0	0	1	6	Yes	6	Final Report Issued
CCTV	Limited	0	9*	0	0	2	Yes	2	Final Report Issued
<b>Procurement / Contracts</b>									
Waste Contract – Client Services						10	Yes		Allocated
Markets – Contract Management						5	Yes		Allocated
Outbound Mail Contract						10	Yes		Allocated
Property Compliance Contract						10	Yes		Allocated
<b>Corporate Governance</b>									
Corporate Governance						12	Yes		Allocated
<b>IT Audits</b>									
Software Licence Management						12	Yes	11	Quality Review
PSN Accreditation						12	Yes		Allocated
<b>Shared Learning and Joint Reviews</b>									
Joint Reviews						2			
Shared Learning						3		1.5	Through Year
<b>Contingency &amp; Ad Hoc Activity</b>									
Contingency						13			As Required

**APPENDIX A – PROGRESS AGAINST THE 2018/19 AUDIT PLAN AS AT 7 SEPTEMBER 2018**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECOMMENDATIONS				AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS / COMMENTS
		C	H	M	L				
Election Support						0			Cancelled
Review of FAR	Not Assessed	0	0	0	0	3	Yes	3	Final Report Issued
DFG Capital Grant certification						2	Yes	1.5	Quality Review
King George V Playing Fields						1	Yes		Allocated
<b>Strategic Support</b>									
Head of Internal Audit Opinion 2016/17						3	Yes	3	Complete
Audit Committee						10	Yes	5	Through Year
Client Meetings						8	Yes	4	Through Year
Liaison with External Audit						1	Yes		Through Year
Progress Monitoring						10	Yes	5	Through Year
SIAS Development						5	Yes	5	Through Year
2018/19 Audit Planning						6	Yes		Through Year
<b>2017/18 Projects requiring completion</b>									
Commercialisation						1	Yes	1	Cancelled
Waste Contract – Green Waste Charging						9	Yes	3	Cancelled – merged with Waste Contract audit
Finalisation of Projects						1	Yes	1	Complete
<b>Total - North Herts D.C.</b>		<b>0</b>	<b>0</b>	<b>4</b>	<b>3</b>	<b>360</b>		<b>113</b>	

\* - High priority recommendations from the CCTV review have not been included in the overall total number of recommendations as these are owned by Stevenage Borough Council (lead authority for the audit) and are monitored by the CCTV Committee.



**APPENDIX B – IMPLEMENTATION STATUS OF HIGH PRIORITY RECOMMENDATIONS**





No high priority recommendations remain outstanding.

## APPENDIX C – 2018/19 AUDIT PLAN START DATES AGREED WITH MANAGEMENT

April	May	June	July	August	September
Review of FAR <b>Final Report Issued</b>	Museum Service <b>Draft Report Issued</b>	Original Documentation – Consultancy Review <b>Final Report Issued</b>	S106 <b>Quality Review</b>	Waste Contract – Green Waste Charging 17/18 <b>Merged with Waste Contract – Client Services</b>	Green Space Strategy Management – deferred from August <b>In Planning</b>
Careline Disaster Recovery <b>Final Report Issued</b>	Overtime and Expenses <b>Quality Review</b>		Software Licence Management <b>Quality Review</b>	DFG Grant Certification <b>Quality Review</b>	Apprenticeship Levy <b>ToR Issued</b>
CCTV <b>Final Report Issued</b>	Health and Safety – Fire Evacuation Arrangements <b>Final Report Issued</b>			Home Improvement Agency <b>In Fieldwork</b>	Homelessness Reduction Act <b>ToR Issued</b>
Commercialisation 17/18 <b>Cancelled</b>	General Data Protection Regulations – deferred from April <b>Final Report Issued</b>				Property Compliance Contract
October	November	December	January	February	March
Integra 2 – General Ledger, Debtors and Creditors	Council Tax	Treasury Management	Waste Contract – Client Services	Learning Management System	
Corporate Debt Management	NDR	Payroll	King George V Playing Fields	Markets – Contract Management	
PSN Accreditation	Benefits	Outbound Mail Contract		Corporate Governance	
Crematorium – deferred from September <b>In Planning</b>					
Capital Programme – moved from January <b>ToR Issued</b>					

**APPENDIX D – ASSURANCE AND FINDINGS DEFINITIONS 2018/19**

Assurance Level	Definition
<b>Good</b>	The design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
<b>Satisfactory</b>	The internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.
<b>Limited</b>	The system of internal control is only partially effective, with important audit findings in key areas. Improvement in the design and/or operation of the control environment is necessary to gain assurance risks are being managed to an acceptable level, and core objectives will be achieved.
<b>No</b>	The system of internal control has serious gaps, and controls are not effective in managing the key risks in scope. It is highly unlikely that core objectives will be met without urgent management intervention.

Priority Level		Definition
Corporate	<b>Critical</b>	 Red Audit findings which, in the present state, represent a serious risk to the organisation as a whole, i.e. reputation, financial resources and / or compliance with regulations. Management action to implement the appropriate controls is required immediately.
	<b>High</b>	 Amber Audit findings indicate a serious weakness or breakdown in control environment, which, if untreated by management intervention, is highly likely to put achievement of core service objectives at risk. Remedial action is required urgently.
	<b>Medium</b>	 Yellow Audit findings which, if not treated by appropriate management action, are likely to put achievement of some of the core service objectives at risk. Remedial action is required in a timely manner.
	<b>Low / Advisory</b>	 Green Audit findings indicate opportunities to implement good or best practice, which, if adopted, will enhance the control environment. The appropriate solution should be implemented as soon as is practically possible.

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**FINANCE AUDIT AND RISK COMMITTEE  
24 SEPTEMBER 2018**

**PART 1 - PUBLIC DOCUMENT**

TITLE OF REPORT: RISK MANAGEMENT UPDATE

REPORT OF: THE SERVICE DIRECTOR: RESOURCES

EXECUTIVE MEMBER: COUNCILLOR JULIAN CUNNINGHAM

COUNCIL PRIORITY: PROSPER AND PROTECT / RESPONSIVE AND EFFICIENT

**1. EXECUTIVE SUMMARY**

To provide the Committee with an update on the Corporate risks.

- The deletion of the Office Accommodation risk TR51
- The creation of a new Waste Parent risk RRNEW 1 with a risk score of 9.
- The deletion of Waste Sub risks RR287 / RR424 / RR455 / TR59 / TR59.001/ TR59.002 / TR59.004 / TR59.005 / TR59.006
- The amendments to Waste sub risk TR59.007 Sale of Recyclable Materials, to include an increase in the risk score from an 8 to a 9.
- The creation of a new Waste risk – RRNEW2 Route Optimisation of Collection Rounds with a risk score of 7.

**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 June meeting of the Finance, Audit and Risk Committee the following changes to the Corporate risks were approved and referred on to Cabinet. These were subsequently approved by Cabinet.

- Waste sub risk for Depot / Transfer station increase in score to a 9.
- New Waste sub risk for Food and Garden Waste with a score of 5.
- The overall score for Waste and Street Cleansing Contract renewal has increased from an 8 to a 9.

#### **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. Appendix A gives a detailed description of each of the Corporate Risks and Opportunities with changed assessments.

**Table 1: Risk and Opportunities Matrix – Proposed Changes**

<b>Likelihood</b>	<b>3 High</b>	<b>4</b>	<b>7</b> <ul style="list-style-type: none"> <li>• Income Generation (23.08.18)</li> <li>• Sustainable Development (16.05.18)</li> </ul>	<b>9</b> <ul style="list-style-type: none"> <li>• Local Plan (13.04.18)</li> <li>• Managing the Council's Finances (30.04.18)</li> <li>• North Hertfordshire Museum and Hitchin Town Hall Project (12.06.18)</li> <li>• Waste Management, Recycling and Street Cleansing (23.08.18)</li> </ul>
	<b>2 Medium</b>	<b>2</b>	<b>5</b> <ul style="list-style-type: none"> <li>• Increased Homelessness (23.07.18)</li> <li>• Workforce Planning (27.03.18)</li> </ul>	<b>8</b> <ul style="list-style-type: none"> <li>• Cyber Risks (19.03.18)</li> </ul>
	<b>1 Low</b>	<b>1</b>	<b>3</b>	<b>6</b>
		<b>1 Low</b>	<b>2 Medium</b>	<b>3 High</b>
		<b>Impact</b>		

- 8.2 Waste Risks.** In August 2018, Officers carried out a major review of the Waste Parent risk and all the associated sub risks. The proposed new Waste risks have been streamlined, with the creation of a new Parent Waste risk and the deletion of 9 sub risks, which have either been incorporated into the remaining 6 risks, or have been identified as no longer required.
- 8.2.1 New Waste Parent Risk RRNEW 1 – Waste Management, Recycling and Street Cleansing Contracts** – Incorporating both delivery of the high profile service and the wider service risks, this gives an overview of the risk, with 5 sub risks supporting the Parent risk. The overall risk score has been increased from an 8 to a 9.
- 8.2.2 Deleted Waste sub Risk RR287 – Waste Management and Recycling Contracts** – Officers propose that this is deleted as it will be covered by the new Parent risk RRNEW1.
- 8.2.3 Amended Waste sub Risk TR59.003 – Northern Transfer station and ancillary facilities** – Risk wording has been updated to include the risks associated with the Hertfordshire Waste Partnership. The risk score remains unchanged.
- 8.2.4 Deleted Waste sub risk RR424 – Hertfordshire Waste Partnership** – now incorporated into an updated TR59.003.
- 8.2.5 Deleted Waste sub risk RR455 – Snow and Ice Clearance** – now covered under RRNEW 1.
- 8.2.6 Deleted Waste sub risk TR59 – Waste and Street Cleansing Contract Renewal** – now covered by the new Parent risk RRNEW 1.
- 8.2.7 Deleted Waste sub risk TR59.001 – Trade Waste** – now covered by the new Parent risk RRNEW 1.
- 8.2.8 Deleted Waste sub risk TR59.002 – Waste and Recycling Service for Flats** – The funding that previously came from the Department for Communities and Local Government has now stopped and the specific issue has been covered with the commencement of the new contract.
- 8.2.9 Deleted Waste sub risk TR59.004 – Commingled Waste** – now covered by updated risk TR59.007 (Sale of Materials)
- 8.2.10 Deleted Waste sub risk TR59.005 – Street Cleansing** – now covered by the new risk RRNEW 1.



- 8.2.11 **Deleted Waste sub risk TR59.006 - Shared Procurement Opportunity** – no longer required as the opportunity has been realised.
- 8.2.12 **Amended Waste sub risk – TR59.007 – Sale of Recyclable Materials** – risk has been updated to incorporate Commingled Waste. The risk score has been increased from an 8 to a 9.
- 8.2.13 **New Waste sub risk – RRNEW 2 – Route optimisation of Collection rounds** – new risk introduced to cover the transition period when collection rounds are changed. Proposed risk score is 7.
- 8.3 **Office Accommodation Project.** In July 2018, Officers agreed that the Office Accommodation risk should be deleted following the project being signed off as complete.

## **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 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**

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### **17. BACKGROUND PAPERS**

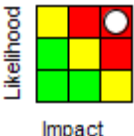
- 17.1 The risks held on Pentana the Council's Performance and Risk Management IT system.



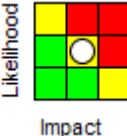
<b>Risk Code</b>	TR51 - Deleted	<b>Risk Title</b>	Office Accommodation
<b>Risk Description</b>	<p>As a result of failure to:</p> <ul style="list-style-type: none"> <li>- Create more open plan space</li> <li>- Minimise disturbance caused by refurbishment works</li> <li>- Have suitable and safe temporary accommodation</li> <li>- Fully anticipate all the costs of the project</li> <li>- Fully engage all staff and Members</li> <li>- Reduce physical storage requirements</li> <li>- Provide sufficient IT and telephony requirements and a suitable public reception in Town Lodge</li> <li>- Have sufficient capacity to deliver the project</li> <li>- Ensure the financial health and competence of the manufacturer/contractor</li> </ul> <p>There is a risk that there is:</p> <ul style="list-style-type: none"> <li>- Failure to complete the project on time, to cost and within the specification</li> <li>- Failure to refurbish the offices as outlined in the original Business Case</li> <li>- Failure to make additional revenue savings/gains from letting</li> <li>- Inability to repair the exterior of the DCO in the long term</li> <li>- Deterioration in services provided to the public</li> <li>- Failure to moderate internal temperatures</li> <li>- Difficult working conditions leading to a deterioration in officers performance</li> <li>- Failure to attract other partners to share the building that could lead to underutilised office space</li> <li>- Failure to manage expectations</li> </ul>		
<b>Recent Notes</b>	19-Jul-2018 Project documentation is now available on the intranet, including Project Closure Report, Benefits Realisation, Lessons Learned, Issues Log and Risk Log.		

<b>Risk Code</b>	RR NEW1 - New	<b>Risk Title</b>	Waste Management, Recycling and Street Cleansing
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2018	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p>Waste management and recycling is a high profile service that affects every resident of the district. It is the most significant service delivered by NHDC and as such, the associated risks relating to delivery of the contracts and the wider disposal and sale of materials need to be managed effectively.</p> <p>The effective day-to-day delivery of the waste management and recycling contracts has the following key risk areas:</p> <ol style="list-style-type: none"> <li><b>1. Staffing (Impact – High, Likelihood – High)</b> Staffing levels of the NHDC client team, due to restructure and maternity leave Ability to monitor and manage the contract effectively</li> <li><b>2. Management and Monitoring Arrangements (Impact – High, Likelihood – High)</b> Lack of an agreed and signed Inter Authority Agreement Clarification and understanding of NHDC, EHDC and contractor responsibilities Formalisation of contractual arrangements</li> </ol>		


	<p><b>3. Trade Waste (Impact – High, Likelihood – Medium)</b> Financial viability due to increasing costs (e.g. disposal and transfer) Competition with other providers who have a lower cost base</p> <p><b>4. Route Optimisation of Collection Rounds (Impact – Medium, Likelihood – High) – Separate Sub Risk</b> Failure to deliver the changes effectively Residents unaware of or unhappy about the changes</p> <p><b>5. Contact Handling (Impact – Medium, Likelihood – High)</b> Ability of contractor’s contact centre (systems/staff) to manage the volume of customer contacts effectively</p> <p><b>6. Food and Garden Waste (Impact – Medium, Likelihood – Medium) – Separate Sub Risk</b> The contractor has problems delivering the new service Residents not using the service expect their bins to be removed immediately NHDC fails to maintain the required number of paying customers</p> <p><b>7. Street Cleansing (Impact – Low, Likelihood – Low)</b> Lower performance levels not achieving value for money and related reputational issues</p> <p><b>8. Snow and Ice (Impact – Low, Likelihood – Low)</b> Ability to fulfil relevant duties, i.e. on our own land (e.g. car parks and council offices) and in line with the partnership agreement with HCC (e.g. town centres), although HCC retains responsibility for the relevant areas Claims for personal injury/property damage</p> <p>The disposal and sale of materials has the following key risk areas:</p> <p><b>9. Depot/Transfer Station (Impact – High, Likelihood – High) – Separate Sub Risk</b> Operational use of the site is not possible or its use is severely restricted Environment Agency closes the site</p> <p><b>10. Sale of Recyclable Materials (Impact – High, Likelihood – High) – Separate Sub Risk</b> Increased cost of processing materials Increased contamination and stockpiling of plastic waste</p> <p><b>11. Disposal Arrangements for Waste (Impact – High, Likelihood – Medium) – Separate Sub Risk</b> Reliance on close working relationship with HCC Failure to secure an alternative Northern Transfer Station by 2024</p>		
<b>Opportunities</b>	- Ensuring minimal public complaints and value for money through the effective management and operation of the waste management contract		
<b>Consequences</b>	<ul style="list-style-type: none"> <li>- Additional workload and pressures for officers</li> <li>- Standard of service delivered decreases</li> <li>- Increased number of complaints and poor public perception of service</li> <li>- Increased need for remedial activities</li> <li>- Performance deteriorates and relevant targets are not achieved</li> <li>- Incorrect or late contract payments</li> <li>- Incomplete or inaccurate data being received from the contractor</li> <li>- Increased costs or decreased income/funding (e.g. AFM)</li> <li>- Damage to the reputation of the Council</li> </ul>		
<b>Work Completed</b>	- Financial risk identified for 2018/19, "Unforeseen issues arising relating to the mobilisation of the new Waste, Recycling and Street Cleansing contract require additional staffing resource to resolve"		
<b>Ongoing Work</b>	<ul style="list-style-type: none"> <li>- NHDC and EHC are in a joint contract with Urbaser that is contractually binding. However, officers are in the process of finalising the various agreements between the parties.</li> <li>- Additional resources have been implemented by both Urbaser and NHDC to assist in resolving the current issues.</li> <li>- Reporting to Overview and Scrutiny on the 18 September 2018 on the performance of the new joint waste contract.</li> </ul>		
<b>Current Impact Score</b>	3	<b>Current Likelihood Score</b>	3

<b>Overall Risk Score</b>	9	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	03-Jul-2018	<b>Next Review Date</b>	03-Oct-2018
<b>Notes</b>			

<b>Risk Code</b>	RR287 - Deleted	<b>Risk Title</b>	Waste Management and Recycling Contracts
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2004	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- Inadequate management arrangements in place to ensure the current contracts are monitored and reported according to existing contract spec' and performance management system</li> <li>- Lack of staff to monitor the contract adequately</li> <li>- Failure to link specification adequately to the recycling contract with Pearce</li> <li>- Contract with Pearce expiring in 2017 (to be extended or re-procured)</li> <li>- Poor custom and practice making contract enforcement difficult</li> </ul> <p><b>There is a risk of:</b></p> <ul style="list-style-type: none"> <li>- Deteriorating standards of contractual obligation</li> <li>- Contractual defaulting mechanism is not used correctly to ensure contract spec' is maintained and achieved</li> <li>- Corporate loss of reputation / satisfaction</li> <li>- Reduced performance within corporate and governmental performance indicators</li> <li>- Decrease in customer satisfaction and increased complaints and contacts to NHDC</li> <li>- When the contracts are tendered or extended, there is a risk of increased costs and challenge from unsuccessful bidders</li> <li>- Due to age of waste contract, some contract terms may be unenforceable</li> <li>- Due to re-tendering, contractor may become complacent and service standards may drop</li> </ul>		
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- Ensuring minimal public complaints and value for money through the effective operation of the waste management contract</li> </ul>		
<b>Consequences</b>	<p>The consequences of failing to ensure the waste contract is managed and monitored sufficiently:</p> <ul style="list-style-type: none"> <li>- Public health adversely affected due to build up of waste on the streets</li> <li>- Incorrect payments being made (overpayments mean NHDC does not achieve best value)</li> <li>- Payments not made by due date (NHDC can incur charges)</li> <li>- Incomplete or inaccurate data being received from the contractor</li> <li>- Inadequate resources available to enable the Council to monitor the contract</li> <li>- Data held by the contractor not available to NHDC officers</li> <li>- Contractor/partner does not manage contamination affecting income</li> <li>- Our outgoings increase</li> <li>- Performance slipping (not hitting targets)</li> <li>- Increased service requests, complaints and call contacts to NHDC direct</li> <li>- Poor AFM</li> <li>- Lack of flexibility to change services and resource implications</li> <li>- Public perception of street cleansing</li> <li>- HWP targets and performance schedules not met</li> <li>- Increase in repeat complaints</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- Can issue defaults, which can lead to contract termination (high risk to Authority)</li> <li>- Monitoring process in place</li> <li>- New monitoring regime now in place to ensure service provision is adequate</li> <li>- All Waste Services Inspectors have been trained upon the correct procedures for inspections and contractual monitoring</li> </ul>		

	<ul style="list-style-type: none"> <li>- Extension to the existing waste management contract has been approved to May 2018</li> <li>- New disposal arrangements have been agreed upon between NHDC and HCC; from 1st October 2014, all waste to be delivered to FCC in Hitchin for bulking and haulage to a disposal site</li> <li>- Revised clinical waste collection introduced in 2016 – new pricing agreed with Veolia</li> <li>- New commingled contract awarded</li> <li>- Specification for new contract now completed and published</li> <li>- Renegotiated minor aspects of waste contract, e.g. duplication with cleaning of amenity areas with grounds maintenance contractor</li> <li>- New contract procured for start May 2018</li> <li>- New PMR developed for new contract</li> <li>- Restructuring of the client team</li> </ul>		
<b>Ongoing Work</b>	<ul style="list-style-type: none"> <li>- Claims for payment are scrutinised prior to payment</li> <li>- Payments are made once a month</li> <li>- Monthly contract meetings are held</li> <li>- Quarterly Partnership Board meetings</li> <li>- Mobilisation of the new contract is ongoing</li> <li>- Recruitment ongoing to fully resource client team</li> </ul>		
<b>Current Impact Score</b>	2	<b>Current Likelihood Score</b>	2
<b>Overall Risk Score</b>	5	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	04-Jan-2018	<b>Next Review Date</b>	04-Jun-2018
<b>Notes</b>	04-Jan-2018 Risk score not adjusted. Resourcing of the client team is fundamental to the management of this risk.		

<b>Risk Code</b>	TR59.003 - Amended	<b>Risk Title</b>	Disposal Arrangements for Waste
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2012	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p>NHDC is reliant on a close working relationship with HCC, the disposal authority, in order to dispose of waste using the most efficient and effective methods. There are medium-term and long-term risks to both parties relating to the relevant sites. NHDC owns the Bury Mead, Hitchin Transfer Station and HCC operate a residual waste transfer solution for NHDC collected waste from this site, via a private sector contract, until 2024. After 2024, an alternative Northern Transfer Station is required to prevent additional transport costs for NHDC, should refuse collection vehicles need to travel outside the district and tip directly at the landfill site, of up to £280,000 (gross of HCC transport subsidy of £100,000). There would also be a related increase in vehicle emissions.</p> <p>The risks associated with a Northern Transfer Station project are:</p> <ul style="list-style-type: none"> <li>- Failure to agree a suitable site along the A1 corridor and to develop a financially viable business case for all parties</li> <li>- Failure to obtain planning permission</li> <li>- Failure to gain required permits</li> <li>- Diversion of NHDC resources to support the project</li> <li>- Failure to develop a site in time, leading to significant increased financial and environmental risks</li> <li>- Potentially developing a site that fails to meet future alternative disposal sites</li> </ul>		

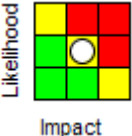
	<p>These risks could lead to the site not being built, which would lead to increased transport costs to transfer to alternative transfer or disposal sites and a failure to capture all savings from having one dedicated waste and recycling site/depot.</p> <p>Currently, there is separate risk entry (TR59.008) relating to the transfer and disposal arrangements for recyclable waste.</p>		
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- Reduction in transportation costs for NHDC and HCC and minimising the impact on the environment</li> <li>- Consolidation of existing facilities (depot, transfer stations for recycling and residual waste, and HWRC) and dependent on location, working with other partners for other services (shared costs and economies of scale)</li> <li>- To improve operational efficiencies by providing one site for household waste (HCC), a depot and waste and dry recyclates transfer station</li> <li>- Work with East Herts, Stevenage and HCC on the transfer station</li> <li>- Potential to relocate the Letchworth HWRC to a larger purpose built site and co-locate with depot and waste transfer</li> </ul>		
<b>Consequences</b>	<p>The consequences of this risk are:</p> <ul style="list-style-type: none"> <li>- Transportation costs to ultimate disposal site continue to increase</li> <li>- Detrimental impact on the environment</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- Feedback to HCC strategic site allocation planning</li> <li>- Worked with HCC waste services in identifying suitable locations for a Northern Transfer Station</li> <li>- Stevenage/North Herts location aborted due to planning restrictions</li> <li>- Contract let by HCC for continuation of transfer until March 2024</li> <li>- NHDC accepting a Royalty payment based on commercial activity at the site, to ensure the medium-term availability of the site</li> <li>- Preliminary discussion held between HCC and NHDC on viability of sites within the Waste Allocations Document for combined depot and Northern Transfer Station</li> <li>- Consultant's report received for Northern Transfer location; site identified owned by HCC</li> <li>- Consultants commissioned to undertake feasibility work and outline designs for identified site</li> <li>- Agreement for use of Buntingford for the transfer of dry recycling for the new waste collection contract</li> </ul>		
<b>Ongoing Work</b>	<ul style="list-style-type: none"> <li>- Bury Mead contaminated land investigations ongoing with new contractor</li> <li>- Work in progress to resolve risk re Northern Transfer Station</li> <li>- Consider developing a transfer station in North Herts</li> <li>- To review feasibility and outline designs for identified site in conjunction with HCC and linked to Local Plan</li> </ul>		
<b>Current Impact Score</b>	3	<b>Current Likelihood Score</b>	2
<b>Overall Risk Score</b>	8	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	03-Jul-2018	<b>Next Review Date</b>	03-Oct-2018
<b>Notes</b>	04-Jan-2018 Likelihood increased due to the re-letting of the residual waste transfer contract by HCC and need for depot to be secured for new waste contract.		

<b>Risk Code</b>	RR424 - Deleted	<b>Risk Title</b>	Hertfordshire Waste Partnership
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood

<b>Year Identified</b>	2008	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- Lack of buy-in from all districts</li> <li>- Conflicting district agendas/aims</li> <li>- Failure of PFI New Barnfield residual waste solution</li> <li>- Failure to combine collection and disposal services to provide economies of scale and savings for all authorities</li> </ul> <p><b>There is a risk to:</b></p> <ul style="list-style-type: none"> <li>- Achieving the objectives of the Hertfordshire Waste Partnership</li> </ul>		
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- Joint working / procurement</li> <li>- Meeting waste diversion and recycling targets</li> </ul>		
<b>Consequences</b>	<p>Leads to:</p> <ul style="list-style-type: none"> <li>- Splintering of partnership</li> <li>- Loss of joint procurement opportunities</li> <li>- Inability to meet targets</li> <li>- Redundancies</li> <li>- Potential loss of facilities</li> <li>- Higher council tax</li> <li>- Contract costs increasing</li> <li>- Loss of AFM funding</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- Strategy in place</li> <li>- New Barnfield project not approved, contingency currently being developed</li> <li>- Joint procurement of commingled MRF contract in 2013 completed</li> <li>- Development of publicity materials to inform the whole of Hertfordshire regarding contamination issues within the organic waste streams and issues surrounding the PAS100;2011 legislation</li> <li>- Joint textiles contract procured</li> <li>- Peer review of HWP completed in 2014</li> <li>- Joint collection contract with East Herts Council agreed</li> </ul>		
<b>Ongoing Work</b>	<ul style="list-style-type: none"> <li>- Delivery of strategy</li> <li>- Delivery of group work programmes contained within the strategy</li> <li>- Delivery of strategy to achieve 60% diversion rates for the County by 2020</li> <li>- Contingency for residual waste developed for Bury Mead until 2021</li> <li>- Ongoing review of strategy</li> <li>- Assistance being provided to HCC for continued use of Bury Mead road to secure residual waste transfer</li> </ul>		
<b>Current Impact Score</b>	2	<b>Current Likelihood Score</b>	2
<b>Overall Risk Score</b>	5	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	04-Jan-2018	<b>Next Review Date</b>	04-Jun-2018
<b>Notes</b>	04-Jan-2018 Risk score adjusted to reflect the reduced influence the HWP has over contracts for waste related services. Waste contract risks are managed under a separate risk.		

<b>Risk Code</b>	RR455 - Deleted	<b>Risk Title</b>	Snow and Ice Clearance
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2011	<b>Corporate Priority</b>	Responsive and Efficient



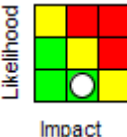
<b>Risk Description</b>	<p>The risks arising from the treatment of or failure to treat snow and ice by NHDC. The snow and ice can be either on NHDC land (primarily Pay &amp; Display car parks) or in the town centres (on behalf of HCC).</p> <p><b>The risks are:</b></p> <ul style="list-style-type: none"> <li>- Snow and ice is not treated</li> <li>- Snow and ice not treated properly creating more of a hazard</li> <li>- There is insufficient supply of salt/grit to carry out the treatment</li> <li>- There is increased liability on NHDC for treating the snow and ice on adopted highway as this is a County function</li> </ul>		
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- Town centres and NHDC pay and display car parks remain safe in the event of snow and ice fall</li> <li>- The public can continue to visit businesses and shops in the district</li> </ul>		
<b>Consequences</b>	<p>The consequences of this risk are:</p> <ul style="list-style-type: none"> <li>- Breach of duties under the Occupiers Liability Act 1957</li> <li>- Members of the public or staff fall and injure themselves</li> <li>- Downturn in car park income (due to lack of accessibility)</li> <li>- Claims for compensation made for injuries</li> <li>- Increase in complaints</li> <li>- Loss of reputation as unable to treat the snow and ice adequately</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- Snow and Ice procedures agreed by Risk Management Group for NHDC land</li> <li>- Operational procedures for applying the treatment in place in Leisure &amp; Environment</li> <li>- Gritting routes agreed by NHDC and HCC</li> </ul>		
<b>Ongoing Work</b>	<ul style="list-style-type: none"> <li>- Purchased our own salt to treat NHDC land, as outlined in the Snow and Ice procedures</li> <li>- NHDC has now provided HCC a complete list of the footpaths it is willing to grit on behalf of HCC</li> <li>- However, NHDC will only grit if / once all street cleansing services have been suspended; until this point all gritting regardless is still the responsibility of HCC, and all claims / insurance cases are the sole responsibility of HCC regardless of which body gritted the footpaths</li> <li>- New arrangements for new contract to be confirmed during contract mobilisation</li> </ul>		
<b>Current Impact Score</b>	2	<b>Current Likelihood Score</b>	2
<b>Overall Risk Score</b>	5	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	04-Jan-2018	<b>Next Review Date</b>	04-Oct-2018
<b>Notes</b>	04-Jan-2018 No update to risk score, new arrangements require agreement with new contractor for winter 2018.		

<b>Risk Code</b>	TR59 - Deleted	<b>Risk Title</b>	Waste & street cleansing contract renewal
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2014	<b>Corporate Priority</b>	
<b>Risk Description</b>	<p>The waste and street cleansing contract is due for renewal in May 2018 There are number of risks to this procurement that have been identified on a project risk log.</p> <p>As a result of</p> <ul style="list-style-type: none"> <li>- unavailability of key staff</li> <li>- a poorly worded/unclear specification</li> <li>- lack of tenders/collaboration</li> <li>- the complex and evolving statutory environment</li> </ul>		

	<ul style="list-style-type: none"> <li>- Uncertainty and changes in disposal infrastructure</li> <li>- extensive lead in time for any new supplier</li> <li>- new procurement legislation</li> <li>- Veolia's software not producing data in a usable format to provide clarity to bidders</li> <li>- other corporate projects calling upon key Officer resource</li> <li>- opportunities for collaborative working</li> <li>- health and safety risks arising from use of HGV's and manual handling</li> <li>- lack of up to date information held by NHDC</li> <li>- key staff being involved in the procurement</li> <li>- age of existing contract</li> <li>- lack of NHDC ownership of a depot or transfer station</li> <li>- Delays in taking a political decision</li> </ul> <p>There is a risk that</p> <ul style="list-style-type: none"> <li>- there will be insufficient staff skills and experience leading to a poor quality tender specification/contract terms</li> <li>- lack of staff resources to develop ITT</li> <li>- the contract fails to deliver expectations</li> <li>- the contract costs increase</li> <li>- procurement will not be delivered on time</li> <li>- the procurement does not follow latest legislation</li> <li>- errors and omissions are made in the evaluation and award of contract</li> <li>- incorrect information is provided in the tender documents</li> <li>- the procurement will be delayed due to conflicts with other projects/support service availability</li> <li>- the procurement is delayed due to negotiation and decision making time frames with stakeholders/partners/staff/politicians</li> <li>- there is a breach of health and safety legislation by the contractor</li> <li>- there is a decline in business as usual</li> <li>- current service standards may prove more costly</li> <li>- potential bidders may not find suitable depot sites which may increase operational costs</li> <li>- Existing contractor may become complacent and service standards may drop during re-tendering</li> </ul>
<b>Opportunities</b>	To provide a modern cost-effective waste and street cleansing service with a contract that is easily performance managed.
<b>Consequences</b>	<p>The consequences of this risk include</p> <ul style="list-style-type: none"> <li>- a poor quality tender specification/contract terms</li> <li>- a legal challenge that would be costly and possibly delay the letting of the contract</li> <li>- the cost of the new contract exceeds budget</li> <li>- incorrect tender pricing by a contractor due to poor data</li> <li>- missed collections/deterioration in street cleansing leading to increased customer complaints and a possible negative impact on public health</li> <li>- injuries, HSE investigations and insurance claims/HSE fines</li> <li>- lack of bids, transferring waste outside the district and/or high contract price</li> <li>- Non-compliance with the Waste Regulations</li> </ul>
<b>Work Completed</b>	<p>Employment of experienced Contracts Manager for Waste &amp; Street Cleansing  Project identified as a key project in 2016/17  Existing service standards in some areas are below that specified in the contract so any decline in service standards may not be noticed.  Bury Mead Road to be used as transfer station in the short/medium term  Project team established  Joint working business case agreed.  Short series of soft market testing was conducted to inform development of the contract specification  Benchmarked contract specification with other authorities as part of the joint working business case  Agreement reached this is to be a joint procurement  Consultant employed to act as a critical friend  Pricing schedule reviews written into the T &amp; C's of the contract.  Adoption of the Intend procurement tool to provide a transparent audit trail</p>
<b>Ongoing Work</b>	Procurement advice aided by external support from WYG and AEA Consultants

	<p>As a contingency in the event of staff unavailability, support could be obtained from HCC/HWP NHDC legal support has been utilised and there is some limited support from EHC procurement Invite dialogue and engage with potential suppliers at a pre procurement stage.</p> <p>Project plan and timeline established, with regular review, presented to the joint Project Board of NH and EH Councils. Also reviewed by HoS</p> <p>Validation and review of all data currently held is being completed to ensure that data available to bidders is as accurate as possible.</p> <p>Specification and T&amp;C's of the contract will be developed to stipulate in contract that NHDC has more control over the data held by the contractor.</p> <p>H &amp; S to be asked for at PQQ stage and to be key areas in spec.</p> <p>Specification, contract T&amp;C's and contract management will be applied to identify any H &amp; S risk areas or breaches. The evidencing of bidders approach to H&amp;S will be supported in the Method Statements requests as part of tender submissions which will be contractually binding on the bidder.</p> <p>Ongoing work with IT to transpose current data and is fundamental to the development of the Customer Service Centre component of the contract.</p> <p>Produce mapped data with inspectors to audit information. Data and supporting information has been developed and will form part of the contract management</p> <p>To review CRM information and IT integration.</p> <p>Members/public/CSC to direct enquiries to others in waste team not involved in procurement</p> <p>Identify sites for potential Northern Transfer Station and depot site in conjunction with Local Plan Purchase site and obtain planning permission.</p>		
<b>Current Impact Score</b>		<b>Current Likelihood Score</b>	
<b>Overall Risk Score</b>		<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>		<b>Next Review Date</b>	
<b>Notes</b>	13-Feb-2017 Risk updated with Oliver Furbur		

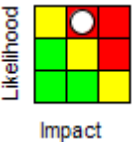
<b>Risk Code</b>	TR59.001 - Deleted	<b>Risk Title</b>	Trade Waste
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2007	<b>Corporate Priority</b>	Attractive and Thriving
<b>Risk Description</b>	<p>The impact of legislative changes to trade waste collections and loss of business to other providers.</p> <p>Trade waste and recycling service does not meet the current needs of the business community by not providing value for money and services as required.</p> <p>Landfill tax increases by RPI.</p> <p>Loss of revenue due to financial climate.</p> <p>Costs of waste transfer make our collections cost prohibitive for businesses.</p> <p>Recycling service does not facilitate businesses to reduce costs sufficiently.</p> <p>The risks are:</p> <ul style="list-style-type: none"> <li>- Not offering recycling collections will result in loss of market share</li> <li>- Loss of customers to other providers due to poor/expensive services</li> <li>- Loss of income to NHDC and potential costs to the general fund</li> </ul>		
<b>Opportunities</b>	To maximise profitability and demand for our trade waste service, which currently makes a contribution to revenue, to develop and provide a full trade waste recycling service to all existing and potential new customers.		

<b>Consequences</b>	Leads to: - Trade waste service loses profitability - Loss of income for NHDC general fund - Reduces the viability of the trade waste service for sale - Services offered do not meet needs of businesses in the district		
<b>Work Completed</b>	- New service costs for 2016/17 developed - majority of costs have increased by contract rises - Changes to HMRC guidance means our customers are exempt from VAT - competitors required to charge (currently being challenged) - Trade waste sales drive has increased profitability of the service substantially - Commingled recycling option introduced for existing commercial customers - Recycling service continues but it will be reviewed to determine if it can be self-sustaining - New commingled recycling charges introduced in April 2016 - Cardboard round review undertaken		
<b>Ongoing Work</b>	- Ongoing work to manage the capacity of the recycling services - Review of pricing structure for April each year - Implementation of new module on Whitespace IT system to manage trade waste contracts due for completion January 2018 - Work required to determine IT management for new contract - Mobilisation of new contract to determine working arrangements and administration responsibilities - New Duty of Care processes being considered for the new contract		
<b>Current Impact Score</b>	2	<b>Current Likelihood Score</b>	1
<b>Overall Risk Score</b>	3	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	04-Jan-2018	<b>Next Review Date</b>	04-Jun-2018
<b>Notes</b>	04-Jan-2018 Risk score not updated, work required to harmonise services with East Herts and determine IT system management and service set up for new waste contract		


<b>Risk Code</b>	TR59.002 - Deleted	<b>Risk Title</b>	Waste and Recycling Services for Flats
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2013	<b>Corporate Priority</b>	Attractive and Thriving
<b>Risk Description</b>	A new commingled recycling, weekly food waste and weekly residual waste collection service was introduced in the summer of 2013 for flats. There are a number of risks arising from and to this service: - There is a risk that the AFM payment received from HCC will stop .This would lead to a loss of income to the revenue account. - A sum of £853,000 was provided by the DCLG to introduce a recycling service to flats in North Herts. Liners have to be provided to flats or there will be a risk that the Council is in breach of the funding agreement with the DCLG. -Decision on the continued viability of weekly services is required in line with the new waste and street cleansing contract procurement.		
<b>Opportunities</b>	- Increased recycling - Reduced waste to landfill - Reduced waste arisings		
<b>Consequences</b>	The consequences of this risk include: - Failure to meet residents' expectations if bins overflow or recycling is contaminated, resulting in		

	increased complaints - Contamination of food waste or recycling, resulting in more waste going to landfill - Overflowing bins and waste accumulations if resident and managing agents fail to engage in recycling		
<b>Work Completed</b>	- New service rolled out in the summer of 2013, resulting in an increase in recycling rate and less waste going to landfill - Further caddy liner delivery completed - Waste composition analysis undertaken for flats to inform decision of future service provision - New contract let, flats will continue food waste collections with residual waste changing from weekly to fortnightly for most flat blocks - LARAC recycling award won for work with managing agents to increase recycling and tackle dumping		
<b>Ongoing Work</b>	- Problem flats reviewed on a case-by-case basis - Public engagement and education to deal with flats with known contamination issues - Ongoing liaison with managing agents - Assessments of flat blocks with insufficient capacity to go to fortnightly residual waste collections - New collections schedules being devised for new contract		
<b>Current Impact Score</b>	2	<b>Current Likelihood Score</b>	1
<b>Overall Risk Score</b>	3	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	12-Feb-2018	<b>Next Review Date</b>	04-Jun-2018
<b>Notes</b>	15-Feb-2018 At the Risk Management Group meeting on 12 February 2018, Vaughan Watson stated that the Likelihood score should be reduced to 1-Low, as he considered the change to fortnightly residual waste collections to be relatively low risk.		

<b>Risk Code</b>	TR59.004 - Deleted	<b>Risk Title</b>	Commingled Waste
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2013	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- Challenges being made at a national level by environmentalists and by companies involved in source separated materials, such as glass, who are using the requirements set out in the Waste Regulations around TEEP (Technically, Environmentally and Economically Practicable) to argue that MRFs (Material Recycling Facilities) do not perform as well and are less environmentally friendly in terms of processing glass and other such material than a source separated at kerbside</li> <li>- Cross contamination of commingled recycling</li> <li>- The quality of glass in commingled recycling</li> <li>- Failure of the contractor for commingled waste</li> <li>- The limited capacity at Radwell</li> <li>- Reduced income from material sale</li> </ul> <p><b>There is a risk of:</b></p> <ul style="list-style-type: none"> <li>- Contaminated loads going to the MRF</li> <li>- Negative impact on recycling performance and diversion of contaminated recycling material being sent to landfill</li> <li>- Failure to make best use of glass collected for recycling</li> <li>- A decrease in the price received for commingled recycling</li> <li>- Material not going to closed loop recycling</li> <li>- Legal challenge from 2015 on the quality of material being recycled via commingled recycling compared to kerbside sorted material. The Environment Agency is the enforcing authority and it will</li> </ul>		

	review local authority positions in 2015. - Failure of the Radwell site to be able to accommodate any increase in recycling - Reduction in income due to changes in waste composition and a fall in the markets for material sale		
<b>Opportunities</b>	- To ensure our commingled material is within defined limits (less than 5%) of contamination at source, to prevent legal and financial challenges - To argue our case if challenged that our commingled material and the MRF that it is sent to is "Fit for Purpose" and the challenges made under TEEP demonstrate we have improved on performance and is more efficient and effective than our previous source separated service		
<b>Consequences</b>	As a result of these risks: - High levels of contamination may result in downgrading our material and significant increased costs; this then may lead to higher risk of challenge on quality and performance under TEEP - Glass may have to be removed from commingled recycling if sufficient quality cannot be achieved at the MRF - Textiles may need to be reviewed if contamination persists in the commingled waste stream - Increased costs if the Council has to use an alternative MRF - Negative impact on our residents and potentially on the performance, reducing our recycling performance if glass is sent to landfill - Option of going back to kerbside sort for glass, this would have financial implications to the revenue budget for waste - Defending any legal challenges made may have additional revenue or opportunity costs - Reputational issues - Successful challenge would result in whole scale service change costs - Continued increases in processing costs may be incurred - Reprocessors may halt receipt of material if quality is not suitable for onward sale or if the global economic market drives the price of recycling too low		
<b>Work Completed</b>	- Cardboard now removed from compost improving the quality of the compost - Commingled contract implemented - Change in publicity in relation to textiles, now in a bag outside of the bin, to help prevent contamination - Staff resource at Radwell to assist in removing contamination - Waste composition reviewed for year 2 of contract - TEEP assessment received finding was that after taking into account the higher level of recycling and the relative costs the current system has been chosen by NHDC because it is seen as more technically practicable, environmental and economic than collecting the four materials separately - New contract let for 7 years		
<b>Ongoing Work</b>	- Waste and recycling contractor removes as much contamination as possible before the recycling is transported to the MRF - AFM payments help to compensate for the cost of processing recyclates - Communication with our residents to assist us in minimising contamination in the commingled waste stream - Herts Waste Partnership have agreed that they will support any district/borough that has a legal challenge about the quality of their commingled recycling - In the event of failure of the contractor, the Council would seek an alternative provider but may have to send some potentially recyclable materials to landfill in the interim - Ongoing communication programme with residents to reduce contamination has been successful overall - Paper recycling contract being considered for extension		
<b>Current Impact Score</b>	2	<b>Current Likelihood Score</b>	3
<b>Overall Risk Score</b>	7	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	04-Jan-2018	<b>Next Review</b>	04-Jun-2018

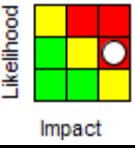
		<b>Date</b>	
<b>Notes</b>	04-Jan-2018 Risk score likelihood updated to reflect global economic climate and impacts of China restrictions on plastics for recycling and new contract re-letting.		

<b>Risk Code</b>	TR59.005 - Deleted	<b>Risk Title</b>	Street Cleansing
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2014	<b>Corporate Priority</b>	Attractive and Thriving
<b>Risk Description</b>	<p>The district is divided into "zones" with different cleaning standards associated with different zones.</p> <p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- Having allocated different types of location to different zones and having a different level of cleansing for different zones there is a risk that there will be no parity with East Herts Council (EHC)</li> <li>- Increasing the cleaning of high speed roads there is a risk that the cost of the contract would increase substantially</li> <li>- Maintaining the current level of cleaning of high speed roads there is a risk that the appearance of the district will not improve and/or there will be a negative environmental impact</li> <li>- Reducing the number of litter bins there is a risk that more litter will be dropped</li> <li>- Deciding not to clear leaf fall there is a risk of increased complaints and the possibility of more people falling and being injured</li> <li>- Zoning of streets, which is outdated and requires a review</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>- Street cleansing standards will fall</li> <li>- There is failure to obtain value for money</li> </ul>		
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- Streets are clean and safe</li> <li>- Contract delivers best value for the Council</li> </ul>		
<b>Consequences</b>	<p>These risks can lead to:</p> <ul style="list-style-type: none"> <li>- Increased contract costs</li> <li>- Increased complaints from the public</li> <li>- Increased dissatisfaction with the level of street cleanliness</li> <li>- Possible claims for injury (e.g. as a result of falling on wet leaves/detritus)</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- Programme of high speed road cleaning arranged annually</li> <li>- Recruited temporary post to update data for new contract</li> <li>- Consulted with members and other stakeholders for new contract minimum standards</li> <li>- New contract specification drafted and contract let</li> </ul>		
<b>Ongoing Work</b>	<ul style="list-style-type: none"> <li>- To communicate any changes in standards to the public with an explanation as to why the decision has been taken (e.g. savings)</li> <li>- Mobilisation of new cleansing schedules ongoing</li> <li>- Review of re-zoning</li> </ul>		
<b>Current Impact Score</b>	2	<b>Current Likelihood Score</b>	2
<b>Overall Risk Score</b>	5	<b>Current Risk Matrix</b>	 <p style="text-align: center;">Likelihood</p> <p style="text-align: center;">Impact</p>
<b>Date Reviewed</b>	12-Feb-2018	<b>Next Review Date</b>	04-Jun-2018
<b>Notes</b>	15-Feb-2018 At the Risk Management Group meeting on 12 February 2018, Vaughan Watson stated that the revised contract specification was built into the new contract and that the risk would be reviewed comprehensively following commencement of the contract. Vaughan's proposal was to		


	reduce the Likelihood score from '3-High' to '2-Medium' and the RMG agreed with his proposal.
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<b>Risk Code</b>	TR59.006 - Deleted	<b>Risk Title</b>	Shared Procurement Opportunity
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2014	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p>There is an opportunity to share the procurement of the waste and street cleansing contract with East Herts District Council.</p> <p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- A lack of staff resources to support the project</li> <li>- A lack of ability to influence the design, delivery and performance of services in the future</li> <li>- Including too many options in the ITT</li> <li>- Lack of interest in the market for a NHDC only contract</li> <li>- Lack of interest in the market for a joint contract</li> <li>- The large number of options and optional services being sought from bidders to accommodate each council's requirements</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>- The future contract is not suitable for the needs of NHDC</li> <li>- There will be slight modifications to the service delivered to residents</li> <li>- One or both parties decide not to continue with a joint procurement, impacting on the timescale for the procurement</li> <li>- The Business Case benefits are not realised</li> <li>- There are very few tenders received for the contract</li> </ul>		
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- Improving the cost effectiveness and resilience of the waste collection and street cleansing contract</li> </ul>		
<b>Consequences</b>	<p>If the risks materialise, the consequences might be:</p> <ul style="list-style-type: none"> <li>- Loss of ability to make savings through a joint procurement</li> <li>- Continuing capacity problems at current transfer locations</li> <li>- Contract costs increase</li> <li>- Lack of satisfaction with the service from residents leading to an increase in complaints</li> <li>- Deterioration in the level of recycling and an increase in the use of landfill</li> <li>- Deterioration in the levels of street cleanliness and increased public complaints</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- December 2014 Cabinet approved the development of a Business Case</li> <li>- Current contract extended to 8 May 2018 to align with EHDC contract</li> <li>- Cabinet approved Strategic Outline Case</li> <li>- Consultant employed to support the project</li> <li>- Outline Business Case approved by Cabinet in July 2016</li> <li>- Full contract scope and financial implications determined</li> <li>- AFM funds used to fund the costs involved in joint procurement</li> <li>- Governance arrangements for contract agreed</li> <li>- Interim Inter-Authority Agreement in place to protect both authorities from financial liabilities and risks in the event of one partner unilaterally ending the partnership prior to procurement</li> <li>- Workshops held with Members to ensure a better understanding of jointly agreed policies</li> <li>- Developed joint contract documentation between EHDC and NHDC</li> <li>- Developed joint contract specification for Waste, Recycling and Street Cleansing</li> <li>- ITT published and procurement process commenced</li> <li>- SQ process conducted and successful bidders invited to full ITT process</li> <li>- Bidder open day held jointly between EHDC and NHDC on 12 June 2017 at the Buntingford Depot for bidders progressed from SQ stage</li> <li>- Procurement exercise completed contract being prepared for signing</li> <li>- Joint policies agreed</li> <li>- Public consultation completed</li> <li>- Client team restructuring completed to be in place February 2018</li> </ul>		
<b>Ongoing Work</b>	<ul style="list-style-type: none"> <li>- Agree composition of a final management board for contract management and determine Member</li> </ul>		

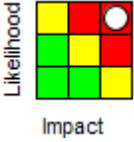


	involvement - To finalise arrangements for the Customer Service Centre for the contract due to a differing approach between NHDC contractor delivered and EHDC internally delivered - Recruitment to client team ongoing - Mobilisation of the contract ongoing and success dependent on staff resource		
<b>Current Impact Score</b>	3	<b>Current Likelihood Score</b>	2
<b>Overall Risk Score</b>	8	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	04-Jan-2018	<b>Next Review Date</b>	04-Jun-2018
<b>Notes</b>	04-Jan-2018 No update to risk score. To be reviewed once contract signed and mobilised.		

<b>Risk Code</b>	TR59.007 - Amended	<b>Risk Title</b>	Sale of Recyclable Materials
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2015	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- Increasing supply and lack of demand for materials</li> <li>- Lack of competition</li> <li>- The downturn in the market for materials and the impact of China's restrictions on plastics for recycling</li> <li>- Reduction in price for commingled material and/or waste paper</li> <li>- Lack of direct management of contractor</li> <li>- Loss of contractor</li> <li>- Contamination of materials</li> <li>- A change in the composition of the materials collected</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>- There is an increase in the cost for processing the materials</li> <li>- There is a significant financial loss to NHDC</li> <li>- There is lack of control over contract</li> <li>- There is a need to find an alternative contractor at short/no notice</li> <li>- The contractor will reject loads that are considered contaminated</li> <li>- There is a stockpile of plastic waste</li> </ul>		
<b>Opportunities</b>	- NHDC obtains maximum income for the materials it has collected that can be recycled		
<b>Consequences</b>	<p>As a consequence of the risk occurring:</p> <ul style="list-style-type: none"> <li>- There is a negative impact on the Council's General Fund</li> <li>- Services may have to be cut to meet the shortfall</li> <li>- Material that could be recycled goes to landfill or it is incinerated</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- NHDC is part of a consortium for recycling materials with other Hertfordshire authorities</li> <li>- Site visits to monitor contamination</li> <li>- Requests for data on material composition</li> <li>- Promotional campaigns to reduce contamination and increase the quality of materials</li> <li>- New paper contract procured as HWP started in January 2017</li> <li>- New contract procured jointly with EHC started in May 2018</li> <li>- Financial risk identified for 2018/19, " Increase in the net cost of recycling services due to either or all of ; adverse changes in the market prices for commodities; a reduction in the volume of recyclates collected; a change in the material composition of the recyclates collected"</li> </ul>		

<b>Ongoing Work</b>	- Budgets adjusted to reflect impact - Monthly review of market price fluctuations		
<b>Current Impact Score</b>	3	<b>Current Likelihood Score</b>	3
<b>Overall Risk Score</b>	9	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	03-Jul-2018	<b>Next Review Date</b>	03-Oct-2018
<b>Notes</b>	04-Jan-2018 No update to score required.		


<b>Risk Code</b>	TR59.008 - Unchanged	<b>Risk Title</b>	Depot/Transfer Station
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2016	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- The Buntingford Depot/Transfer Station failing to meet Environment Agency requirements, e.g. installation of a fire suppression system</li> <li>- The Environment Agency not issuing the required operating licence</li> <li>- The Environment Agency not agreeing to a further extension to the temporary agreement, which expires in August 2018, to continue operating from the site on the existing basis</li> <li>- Foreclosure on the tenancy agreement, a fire or serious Health &amp; Safety concerns/incident</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>- The Environment Agency closes the site</li> <li>- Operational use of the site is not possible or its use is severely restricted</li> </ul> <p><b>This could lead to:</b></p> <ul style="list-style-type: none"> <li>- Service delivery and the management of dry recyclates being significantly affected, e.g. waste collections being suspended/reduced</li> <li>- Dry recyclates being sent directly to the recycling facility</li> <li>- Dry recyclates being sent to landfill</li> <li>- Use of alternative transfer sites (either as a formal Business Continuity arrangement or as an emergency reactive solution)</li> </ul>		
<b>Opportunities</b>	- A joint depot/recycling transfer station with EHDC providing economies of scale		
<b>Consequences</b>	<p>As a result of the risks arising:</p> <ul style="list-style-type: none"> <li>- NHDC could require additional unbudgeted resources</li> <li>- NHDC's reputation could be damaged</li> <li>- NHDC could receive an increased number of complaints from residents</li> <li>- NHDC's performance could deteriorate</li> <li>- NHDC's income/identified savings could reduce</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- Initial risks associated with the contract tendering process managed effectively, e.g. IT, telephone and parking issues all resolved</li> <li>- Urbaser submitted application for the operator licence</li> </ul>		
<b>Ongoing Work</b>	<ul style="list-style-type: none"> <li>- EHDC responsible for financing and managing the installation of a fire suppression system</li> <li>- NHDC/EHDC representatives undertaking updated risk assessments and Business Continuity planning</li> <li>- Investigating options for third party providers to provide alternative transfer sites for dry recyclates and for direct delivery to Pearce</li> </ul>		
<b>Current Impact</b>	3	<b>Current</b>	3

<b>Score</b>		<b>Likelihood Score</b>	
<b>Overall Risk Score</b>	9	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	03-Jul-2018	<b>Next Review Date</b>	03-Oct-2018
<b>Notes</b>	23-May-2018 Following the Risk Management Group meeting on 23 May 2018, the risk entry was updated so that it accurately reflects both the current risks and the recent increase to the overall risk score. The original risks associated with the contract tendering process have been removed from the Risk Description, as these were managed effectively and resolved.		

<b>Risk Code</b>	TR59.009 - Amended	<b>Risk Title</b>	Food and Garden Waste
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2018	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p>On 16 October 2017, Cabinet approved the introduction of weekly food waste collections and a chargeable garden waste collection service for the new contract, commencing on 9 May 2018.</p> <p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- NHDC not providing food waste caddy liners, apart from a limited number when the service is introduced</li> <li>- Residents being unwilling to pay the £40 per year charge (initial £35 early bird offer)</li> <li>- Residents being unhappy with the changes, especially in light of consultation feedback</li> <li>- Problems with the payment process and transfer of data to the operating system</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>- The contractor has problems delivering the garden waste collection service, i.e. ensuring residents that have paid have their waste collected and that residents that have not paid do not</li> <li>- Residents fail to utilise the food waste caddies and dispose of food waste in their purple bins</li> <li>- NHDC fails to maintain the required number of residents paying for the chargeable garden waste collection service</li> <li>- Residents dispose of garden waste by alternative (e.g. Household Waste Recycling Centres) or inappropriate (fly-tipping) means</li> <li>- Residents not buying in to the service might expect their bins to be removed immediately</li> </ul> <p><b>This could lead to:</b></p> <ul style="list-style-type: none"> <li>- NHDC not achieving the income figures specified in the budget</li> <li>- Reduced performance (increased residual waste and decreased recycling rate)</li> <li>- Increased incidents of fly-tipping</li> <li>- A high number of complaints and negative press coverage</li> <li>- Customer contact centres being unable to cope with a high volume of calls</li> <li>- Increased costs and negative impact on future AFM payments</li> </ul>		
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>- NHDC maximises take up of the chargeable garden waste collection service and the associated income</li> <li>- The amount of food waste collected increases (and offsets any reduction in garden waste)</li> </ul>		
<b>Consequences</b>	<ul style="list-style-type: none"> <li>- Recycling performance reduces closer to the legislative requirement of 50%</li> <li>- Anticipated savings are not realised</li> <li>- Negative impact on NHDC's finances</li> <li>- Damage to NHDC's reputation</li> </ul>		
<b>Work Completed</b>	<ul style="list-style-type: none"> <li>- Cabinet approval for service changes (October 2017)</li> <li>- Contract mobilised</li> <li>- Over 40% take up of the garden waste collection service at contract commencement, which has now increased to 47% (May 2018)</li> </ul>		

<b>Ongoing Work</b>	<ul style="list-style-type: none"> <li>- Implementing Communication Plan relating to service changes/implementation issues</li> <li>- Urbaser conducting a data cleansing exercise to resolve the issues with data transfer to the operating system (they have indicated that the system is currently 99% clean), which resulted in problematic collection issues and a high number of complaints</li> <li>- To address short-term implementation issues, Urbaser has doubled the size of its contact centre and operated additional services/hours to "catch up"</li> <li>- No early indications of an increase in fly-tipping or a detrimental impact on HWRCs</li> </ul>		
<b>Current Impact Score</b>	2	<b>Current Likelihood Score</b>	2
<b>Overall Risk Score</b>	5	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	03-Jul-2018	<b>Next Review Date</b>	03-Oct-2018
<b>Notes</b>	23-May-2018 Following the Risk Management Group meeting on 23 May 2018, the risk entry was updated so that it accurately reflects the current risks and recent developments associated with the commencement of the new service. Take up of the garden waste service was approximately 40% at contract commencement and has now increased to 47%. This has exceeded initial expectations.		

<b>Risk Code</b>	RR NEW2 - New	<b>Risk Title</b>	Route Optimisation of Collection Rounds
<b>Risk Owner</b>	Vaughan Watson	<b>Updated By</b>	Chloe Hipwood
<b>Year Identified</b>	2018	<b>Corporate Priority</b>	Responsive and Efficient
<b>Risk Description</b>	<p>In line with the contractor's contract bid, NHDC is required to implement changes to collection rounds. This will include the transition to fortnightly residual waste collections for flats.</p> <p><b>As a result of:</b></p> <ul style="list-style-type: none"> <li>- Urbaser not planning in detail for the changes to collection schedules and associated working hours, including disposal arrangements</li> <li>- NHDC failing to communicate the changes effectively</li> </ul> <p><b>There is a risk that:</b></p> <ul style="list-style-type: none"> <li>- There are issues delivering the changes, e.g. due to possible industrial action or staff shortages</li> <li>- The public are unaware of and unhappy about the changes</li> </ul> <p><b>This could lead to:</b></p> <ul style="list-style-type: none"> <li>- A further high demand on the client team/phone system to deal with complaints/issues</li> <li>- Further negative press coverage</li> </ul>		
<b>Opportunities</b>	- Ensuring a smooth transition to the new service, in line with the waste management contract		
<b>Consequences</b>	<ul style="list-style-type: none"> <li>- Additional workload and pressures for officers</li> <li>- Standard of service delivered decreases</li> <li>- Increased number of complaints and poor public perception of service</li> <li>- Increased need for remedial activities</li> <li>- Performance deteriorates and relevant targets are not achieved</li> </ul>		
<b>Work Completed</b>			
<b>Ongoing Work</b>			
<b>Current Impact Score</b>	2	<b>Current Likelihood Score</b>	3

<b>Overall Risk Score</b>	7	<b>Current Risk Matrix</b>	
<b>Date Reviewed</b>	03-Jul-2018	<b>Next Review Date</b>	03-Oct-2018
<b>Notes</b>			

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**FINANCE, AUDIT & RISK COMMITTEE  
24 SEPTEMBER 2018**

**PART 1 - PUBLIC DOCUMENT**

TITLE OF REPORT: INTEGRATED CAPITAL AND TREASURY STRATEGY  
REPORT OF: THE SERVICE DIRECTOR- RESOURCES  
EXECUTIVE MEMBER: CLLR JULIAN CUNNINGHAM  
COUNCIL OBJECTIVE: RESPONSIVE AND EFFICIENT

**1. EXECUTIVE SUMMARY**

1.1. The Ministry for Housing, Communities and Local Government (MHCLG) and Chartered Institute for Public Finance and Accountancy (CIPFA) have both issued guidance in relation to Councils having an Investment Strategy. The guidance provides details of what is required to be included in the Strategy (from 2019/20). Whilst the Investment Strategy could be covered by extending what is currently covered in the separate Treasury Strategy and Capital Programme, it is considered that this is an opportunity to combine the two and review the content to make it more meaningful. The Committee are asked to comment on the draft Strategy, as to whether the format and content is helpful for their needs.

**2. RECOMMENDATIONS**

2.1. That the Committee comment on the format and content of the draft Strategy attached as Appendix A.

**3. REASONS FOR RECOMMENDATIONS**

3.1 To fulfil the Committee's terms of reference, to "assist the Council and the Cabinet in the development of its Budget and Policy Framework process by in-depth analysis of policy issues pertaining to finance, audit and risk".

#### **4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 It was considered whether to meet the requirements by extending the current Treasury Strategy and Capital Programme documents. As both of these documents have been adapted over time to meet changing requirements and legislation they no longer provide a clear narrative. It was therefore considered appropriate to develop a combined document that would then fully meet the issued guidance.

#### **5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1. This committee is being consulted for their feedback.

#### **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 On 2<sup>nd</sup> February 2018, the MHCLG published updated statutory guidance on Local Government investments. The guidance was effective from 1<sup>st</sup> April 2018, but it recognised that it had been published very late and therefore full implementation could be delayed until 2019/20. As at the date that the statutory guidance was issued, the Council's capital programme and treasury strategy has already been considered by Cabinet and recommended on to Full Council. Therefore the option was taken to defer to 2019/20. A link to this document is provided in the background papers.

- 7.2 Guidance issued by CIPFA is in the form of the Prudential Code (i.e. the Prudential Code for Capital Finance in Local Authorities, 2017 Edition) and the Treasury Management Code (i.e. the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition). These publications are subject to copyright so copies can not be provided.

#### **8. RELEVANT CONSIDERATIONS**

- 8.1. The statutory guidance issued by the MHCLG has broadened the scope of what should be covered by the treasury management principles of Security, Liquidity and Yield. This has now been extended to include capital assets that are held for financial returns, rather than just treasury investments. For these assets it has also added a requirement to consider the fair value of the asset and the risk of loss.



- 8.2. The guidance also now requires a consideration of the full costs of holding assets, including both revenue and capital maintenance. It also encourages taking a longer term view of this expenditure i.e. up to 10 years.
- 8.3. The guidance provides a revised definition of 'borrowing in advance of need'. In the past this has been determined to be borrowing before it is strictly needed and then investing the surplus cash. If the borrowing is cheap enough and it is invested in the right way then this can create a net gain. The new definition now determines that borrowing for capital investments (e.g. land and buildings) that are purchased purely to generate profit is also treated as borrowing in advance of need.
- 8.4. The guidance defines the document that covers all the requirements that it sets out as an 'Investment Strategy'. However it does determine that the requirements can be covered by multiple documents or a document with a different name. This report refers to it as an 'Integrated Capital and Treasury Strategy' as it is felt that this better reflects what it actually contains, and this is the title given to Appendix A.
- 8.5. The draft at Appendix A is intended to give the Committee a chance to comment on the content and flow of the draft Strategy. The tables that are included are deliberately left blank as their content will depend on a number of factors (e.g. a review of the existing capital programme, new capital bids and forecasts around capital receipts and other funding). Some of the detail may not be immediately relevant (e.g. borrowing strategy and Minimum Revenue Provision policy) but is included as it is likely to become so. The Investment Strategy that is included is based on the current treasury strategy and may be subject to change before it is finalised.
- 8.6. Officers believe that the content of this draft fully complies with guidance and legislation. However additional support and information will be used to ensure that this is the case. This will include:
- Advice from the Council's Treasury Advisors
  - An Internal Audit review has been included within the SIAS Audit Programme
  - As other Councils make draft versions available, these will be compared against this draft to identify any gaps.

## **9. LEGAL IMPLICATIONS**

- 9.1 The MHCLG Statutory Guidance is 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 Local Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

- 9.3 The Terms of Reference of this Committee under 10.1.5(d) are to “*assist the Council and the Cabinet in the development of its Budget and Policy Framework process by in-depth analysis of policy issues pertaining to finance, audit and risk*”.

## **10. FINANCIAL IMPLICATIONS**

- 10.1 As this report is concerned with giving the Committee an opportunity to comment on the format and content of the Strategy, there are no direct financial implications arising from this report. This report deliberately does not cover any changes to the Strategy. If there are any changes then these will be covered in the version presented to the Committee in January 2019.

## **11. RISK IMPLICATIONS**

- 11.1 As per the financial implications above, this report deliberately does not cover any changes to the Strategy. If there are any changes then these will be covered in the version presented to the Committee in January 2019. The Strategy does determine the Council’s approach and management of treasury and investment risks.

## **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.

## **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 report.

## **15. APPENDICES**

- 15.1 Appendix A – Draft Integrated Capital and Treasury Strategy

## **16. CONTACT OFFICERS**

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16.2 Antonio Ciampa 01462 474566, Accountancy Manager  
[Antonio@north-herts.gov.uk](mailto:Antonio@north-herts.gov.uk)

**17. BACKGROUND PAPERS**

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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# Appendix A- Integrated Capital and Treasury Strategy

## Overview

### Introduction

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate security and liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending plans. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses.

The Chartered Institute of Public Finance and Accountancy (CIPFA) define treasury management as:

*"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Recent changes to legislation and guidance have meant that the coverage of this strategy has been extended. First of all this strategy now provides an integrated view of capital spend and income, alongside treasury management. This is because long-term Treasury management is inextricably linked to the funding of the capital programme. Secondly, there is now a requirement to apply treasury management principles to any capital spend that is not related to service provision.

The format of this strategy is as follows:

#### Part 1- Capital Spend

- A summary of the Council's current capital assets. For those assets that are not held for service provision, an assessment against the principles of Security, Liquidity and Yield.
- Forecasts of the capital and revenue spend required to maintain those assets.
- Planned spend on new capital assets, with the additional assessment of risk, security, liquidity and yield for those assets that are not being acquired for service provision.
- This part of the strategy therefore gives a complete picture of forecast capital spend.

#### Part 2- Capital balances, receipts and the Capital Financing Requirement (CFR)

- Forecasts of expected receipts from the sale of surplus capital assets.
- Comparing capital spend forecasts with capital reserve balances and forecast future receipts gives the Capital Financing Requirement, which is the Council's need to borrow.

#### Part 3- Borrowing Strategy and Minimum Revenue Provision (MRP)

- This leads to the setting of a borrowing strategy which sets out how to borrow, when to borrow and for how long.
- Where the Council has a borrowing requirement, then it is required to set a policy on Minimum Revenue Provision.

#### Part 4- Investment Strategy

- This is then all combined to determine the levels of cash that the Council will have available for investment. This leads to an investment strategy that determines where to invest any balances, including limits on types of investments.

The strategy sets a number of prudential and treasury indicators. A prudential indicator is one which is required by statutory guidance, whereas a treasury indicator is one that is set locally to provide information on performance.

#### Reporting requirements

Full Council will receive and approve three reports during the year:

- The Integrated Capital and Treasury strategy (this report)
- A mid-year review
- An annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management strategy

Each of these reports will be reviewed by the Finance, Audit and Risk (FAR) Committee and Cabinet. The FAR Committee and Cabinet will also receive reports on the position as at the end of the first (to end of June) and third (to end of December) quarters. The FAR Committee undertakes an oversight role.

These reports will provide relevant updates on performance against the prudential and treasury indicators.

#### Treasury Management Policy and Treasury Management Practices

In line with guidance from the Chartered Institute of Public Finance and Accountancy, the Council sets the following treasury management policy:

1. This Council defines its treasury management activities as: The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council will also adopt the Treasury Management Practices (TMPs) detailed in Appendix (tbc).

## Treasury Consultant

The Council has contracted with Link Asset Services to provide treasury management advice during 2018/19. It is recognised that the responsibility for treasury management decisions remains with the Council at all times and the Council will ensure that undue reliance is not placed upon Link. However there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented. The Council will be carrying out a re-procurement of this contract during 2018/19.

## Skills and culture

It is important that decision makers are given the information that they need to make those decisions. Given that treasury and risk management can be a complex area; this should be accompanied by the availability of appropriate training. To address the availability of information, all Council, Cabinet and Committee reports include sections on both financial and risk implications. Where a decision is more financial in nature then these considerations will be detailed throughout the report. Table 1 details the key groups in relation to decision making and the training that has been made available. This strategy is required to disclose the steps that have been taken to provide training, and it is up to individual members of those groups to ensure that they take advantage of the opportunities offered.

Table 1

<b>Group</b>	<b>Reason for training</b>	<b>Training that has been made available</b>
Full Council (All Councillors)	Required to formally adopt this Strategy.  Required to approve any capital purchase over £2.5m.	Annual training that provides an introduction to Local Authority funding and accounting.  Training session provided by Link (the Council's treasury advisors) on risk and how it can be assessed, particularly in relation to capital investment.
Finance, Audit and Risk Committee	To review the Council's policies on Treasury, Capital and the Medium Term Financial Strategy.  To monitor the effective development and operation of risk management.	Members of the Committee (and substitutes) are encouraged to complete a skills self-assessment. This allows the targeting of specific training.  Regular reporting to the Committee on Capital, Risk and Treasury provides the opportunity to ask questions.
Senior Management Team (SMT)	Individual Service Directors will be responsible for putting forward proposals.  Proposals will be reviewed by the Senior Management Team prior to taking through the Committee process.  Members of SMT are likely to be involved in negotiating commercial deals.	Training session on risk, risk appetite and assessing risk. <i>(To happen)</i>  Regular updates on the Council's funding and finances, including significant changes in regulations.  Training on the core principles of the prudential framework. <i>(To happen)</i>

**Part 1- Capital Spend**

**Current Capital Assets**

As at 31<sup>st</sup> March 2018, a summary of the capital assets owned by the Council is shown in table 2 below. A full list can be found in Appendix (tbc).

**Table 2**

<b>Asset Type</b>	<b>Asset</b>	<b>Reason for ownership</b>	<b>Value (£000)</b>
Service			

Table 3 shows the capital expenditure that has been incurred during the year, or is forecast to be spent in the remainder of the year:

**Table 3**

<b>Asset Type</b>	<b>Asset</b>	<b>Reason for purchase</b>	<b>Value (£000)</b>
Service			



**Capitalisation Policy:**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classed as Property, Plant and Equipment.

Expenditure, above the de-minimis level, on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) or is below the de-minimis level, is charged as an expense when it is incurred.

The Authority's de-minimis level is £20,000 for property and £10,000 for vehicles, plant and equipment.

For the assets that the Council owns (or plans to purchase in the year) that are **not** for service delivery, the security, liquidity and yield in relation to these have been considered. For these assets it is up to the Council to determine how it balances these, and this will depend on its risk appetite. This analysis is shown in Table 4. In most cases, assets are grouped together by type.

**Definitions:**

Security- The possibility that other parties fail to pay amounts due to the Authority.

Liquidity- The possibility that the Authority may not have funds available to meet its commitments to make payments.

Yield- The income return on an investment, such as the interest received from holding a particular investment.

**Table 4**

<b>Asset (or type of asset)</b>	<b>Security</b>	<b>Liquidity</b>	<b>Yield</b>

**Definitions:**

Fair Value: The price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

For each of the assets in table 3, there is also a requirement to carry out a fair value assessment that demonstrates that the underlying assets provide security for the capital invested. There is a further requirement to carry out an assessment of the risk of loss. This assessment generally relates to investments in commercial activities so includes items that may be less relevant to the majority of our assets. In total the risk assessment covers:

- Assessment of the market that competing in, including nature and level of competition, market and customer needs including how these will evolve over time, barriers to entry and exit, and ongoing investment required
- Use of external advisers and how the quality of these is monitored
- Whether credit ratings are used and how these are monitored
- Any other sources of information that are used

The assessments described above are shown in table 4. In most cases the assets are grouped together by type.

**Table 5**

<b>Asset (or type of asset)</b>	<b>Fair value assessment</b>	<b>Assessment of the risk of loss</b>

Under the 'Use of Capital Receipts Direction', the Council can treat certain specified revenue spend as capital. Further details of the direction are shown below. Where this direction is used, the spend is included in the capital forecasts in tables 5 and 7

**Use of Capital Receipts Direction:**

To be determined.





Where this proposed expenditure does not relate to service delivery, the security, liquidity and yield in relation to this spend has been considered (table 9).

**Table 9**

<b>Asset (or type of asset)</b>	<b>Security</b>	<b>Liquidity</b>	<b>Yield</b>

For these assets, table 10, also details an assessment of the risk of loss. This covers the same factors that have been detailed previously. Where relevant, assets have been grouped together.

**Table 10**

<b>Asset (or type of asset)</b>	<b>Assessment of the risk of loss</b>



**Definitions:**

Capital receipts- money received from the sale of surplus assets.

Set-aside receipts- previously money generated from the sale of surplus assets was not defined as capital receipt. The residual funding that the Council has (which is mainly from the sale of its housing stock to North Herts Homes) is treated as a set-aside receipt. In essence these are treated in the same way as capital receipts.

The borrowing requirement is the balancing item. It is also known as the Capital Financing Requirement (CFR). This is a Prudential Indicator and the Council is required to set a target for it and monitor against it during the year.

**Prudential Indicator 2: Capital Financing Requirement**

<b>Year</b>	<b>£m</b>
As at 31 <sup>st</sup> March 2018 (actual)	
As at 31 <sup>st</sup> March 2019 (forecast)	
As at 31 <sup>st</sup> March 2020 (forecast)	
As at 31 <sup>st</sup> March 2021 (forecast)	
As at 31 <sup>st</sup> March 2022 (forecast)	
As at 31 <sup>st</sup> March 2023 (forecast)	
As at 31 <sup>st</sup> March 2023 (forecast)	
As at 31 <sup>st</sup> March 2024 (forecast)	

Where the Council has a Capital Financing Requirement (i.e. the borrowing requirement is positive) then it:

- Must make a charge to revenue for a Minimum Revenue Provision.
- Can choose whether to borrow internally or externally.

### Part 3- Borrowing Strategy and Minimum Revenue Provision (MRP)

#### Borrowing strategy

##### **Definitions:**

Internal Borrowing- Even when the Council has no capital reserves, it can borrow internally against its revenue balances and reserves. This uses the cash that is available and is different to funding capital from revenue. The Council is still required to have a Minimum Revenue Provision, but does not incur any external interest costs. Interest income from investing the revenue balances and reserves would be lost.

External Borrowing- Borrowing from a third party (e.g. Public Works Loans Board, a Local Authority or a financial institution). Interest costs would be incurred, as well as having to make a Minimum Revenue Provision.

In order to determine whether to borrow internally or externally, the Council must consider the level of revenue reserves and provisions that it has, and when it expects that these will be spent. Forecasts of the revenue budget give the following estimates (table 13).

**Table 13**

Revenue balance	Brought forward (at 31/3/18)	Forecast balance at year end						
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29
General Fund								
Add back MRP								
Revenue Reserves								
S106 balances								
Provisions								
Debt repayment								
<b>Total</b>								

MRP is added back as it is not an outflow of cash and can be used for internal borrowing. The cash outflow happens when the borrowing is repaid.

As well as the availability of revenue funding, the Council also needs to consider the advantages and disadvantages of external borrowing. Interest rates are still at very low levels and are only expected to go up, which will increase the cost of external borrowing in the future. It may also be possible to generate higher returns from investing revenue reserves than the interest costs that would be saved. However this has to be balanced against the certainty of interest costs that will be incurred as soon as borrowing is taken out. There is also a need for the Council to retain a certain buffer of revenue reserves as cash to manage the peaks and troughs in its cash balances. Whilst the Council can borrow for short-term cash-flow needs, this can become expensive. Whatever strategy is adopted, it should be prudent.



Based on the various factors, it is considered that the balance between new internal and external borrowing as shown in table 14 should be adopted. This is due to (to be determined).

**Table 14**

	Brought forward (at 31/3/18)	Forecast amount of borrowing in year							Carried forward (at 31/3/29)
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25 to 2028/29	
Total borrowing requirement									
Made up of:									
Internal borrowing									
External borrowing									

The brought forward borrowing total is made up of historic borrowing that it is not cost effective to pay off. This is because the interest that would be payable over the course of the remaining loan has to be paid upfront instead.

**Definitions:**

Operational Boundary: This is the limit beyond which external debt is not normally expected to exceed.

Authorised Limit: This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

**Prudential Indicator 3: External Debt**

Year	Forecast Borrowing £m	Forecast other long-term liabilities £m	Forecast Total External Debt £m	Operational Boundary £m	Authorised Limit £m
As at 31 <sup>st</sup> March 2018 (actual)					
As at 31 <sup>st</sup> March 2019 (forecast)					
As at 31 <sup>st</sup> March 2020 (forecast)					
As at 31 <sup>st</sup> March 2021 (forecast)					
As at 31 <sup>st</sup> March 2022 (forecast)					
As at 31 <sup>st</sup> March 2023 (forecast)					
As at 31 <sup>st</sup> March 2024 (forecast)					

The external borrowing forecast can be used to give an indication of the borrowing that may be required, which is combined with outstanding existing borrowing (table 15). The Council will also borrow for short-term cash-flow needs if required. The actual borrowing that is taken out will depend on the latest forecasts and the offers that are available at the time that it is required. There will also be a consideration of when any other borrowing becomes due, with the aim of achieving a spread of these dates. This is to try and avoid refinancing risk. The Council is required to set indicators for the maturity structure of its borrowing. Given the low level of borrowing that the Council currently has and is forecast to have, it is considered appropriate to maintain full flexibility as to the exact duration of any borrowing undertaken. This is reflected in the indicators set out as Treasury Indicator 4 below.

**Definitions:**

Refinancing Risk: The risk that if all borrowing becomes due for repayment at the same time that this will be at a time when the costs out taking out new borrowing (refinancing) are very high.

**Table 15**

<b>Loan Type</b>	<b>Start date</b>	<b>Duration (years)</b>	<b>Maturity date</b>	<b>Interest Rate (actual or forecast) (%)</b>	<b>Annual interest cost (£k)</b>

**Treasury Indicator 4: Maturity Structure of Fixed Interest Rate Borrowing**

<b>Maturity period</b>	<b>Lower %</b>	<b>Upper %</b>
Under 12 months		
12 months to 2 years		
2 years to 5 years		
5 years to 10 years		
10 years to 20 years		
20 years to 30 years		
30 years and above		

The Council does not place any restrictions on where it can borrow from. This is because the Council will hold the money and therefore there is not a risk around the security of the funds. In practice any borrowing is likely to come from the Public Works Loan Board, UK banks, UK building societies and other Local Authorities. All borrowing will be denominated in GBP Sterling. The decision on any borrowing will be made by the Chief Finance Officer, and reflect the advice of the Council's treasury advisers.

The Council can enter in to borrowing arrangements at both fixed and variable rates. Variable rate borrowing has a greater risk and so therefore Treasury Indicator 5 limits the amount of borrowing that can be at a variable rate. To aid administration and monitoring, the limits are shown as £ values

but are based on percentages of the Operational Boundary. Borrowing at fixed rates can be up to 100% (inclusive) of the Boundary, and variable rate borrowing can be up to 30% of the Boundary.

**Definitions:**

**Fixed Rate:** The rate of interest is set at the point the borrowing is taken out and remains at the same percentage rate for the full term of the loan.

**Variable Rate:** The rate of interest varies during the term of the loan and usually tracks prescribed indicator rate (e.g. Bank of England base rate)

**Treasury Indicator 5: Fixed and Variable Borrowing Rate Exposure**

Year	Operational Boundary £m	Limit on Fixed Rate borrowing £m	Limit on Variable Rate borrowing £m
2019/20			
2020/21			
2021/22			
2022/23			
2023/24			

There is a requirement for the Council to consider the proportionality of the income that it generates from its non-service (investment) assets and how this compares to any borrowing that is linked to those assets. Current and planned investment assets were detailed in table 3 and table 8. Treasury indicator 6 shows the capital value and expected income from these assets, alongside any borrowing that is attached to those assets and the expected cost of that borrowing.

**Treasury Indicator 6: Income from investment assets and the costs of associated borrowing**

Year	Capital value of investment assets £m	Expected annual income from investment assets £m	Loans linked to investment assets £m	Expected annual borrowing costs for loans linked to investment assets £m
2019/20				
2020/21				
2021/22				
2022/23				
2023/24				

Borrowing in advance of need

The Council would not borrow money at a low rate to try and reinvest that money to earn a higher interest rate, and profit from the margin between the two rates. However the extended definition now covers borrowing for capital investments where they are acquired purely to generate profit. The only instance where this could apply is the purchase of housing for renting at market rates. However this has been in the capital programme for a few years and is funded from capital receipts, so is not subject to this restriction.

If the Council did want to use borrowing to fund capital investment for a profit, then this can be done if it is fully explained as part of this capital strategy.

Minimum Revenue Provision

When the Council has a Capital Financing Requirement (CFR) it is required to make a charge to the General Fund (revenue budget) called a Minimum Revenue Provision (MRP). Subject to guidelines, the Council sets its MRP policy, which is detailed below:

**Minimum Revenue Provision:**

The Council is required to have a Minimum Revenue Provision (MRP) policy, and when required make charges to revenue in accordance with that policy.

Full policy to be determined.

Applying the MRP policy described above, this gives the following revenue costs (table 16).

**Table 16**

Borrowing					
Amount					
Start Date					
End Date					
Interest Rate					
Method for Calculating MRP					
Revenue cost of borrowing by year	2019/20				
	2020/21				
	2021/22				
	2022/23				
	2023/24				
	2024/25 to 2028/29				
	2029/30 and beyond				

There is a prudential indicator that compares the net cost of financing (i.e. borrowing costs less income generated from investments) with the net revenue budget of the Council. This will be looked at later in this document after considering investments and their forecast returns. However the indicator below considers the cost of borrowing as a % of the net revenue budget of the Council.

**Treasury Indicator 7: Cost of borrowing (interest and MRP) as a % of the net revenue budget 2019/20 to 2023/24**

<b>Year</b>	<b>Estimated cost of borrowing (£m)</b>	<b>Forecast net revenue budget (£m)</b>	<b>Estimated cost of borrowing as a % of net revenue budget (%)</b>
2019/20			
2020/21			
2021/22			
2022/23			
2023/24			

#### Part 4- Investment Strategy

Based on the assumptions above the following available investment balances are assumed. This includes a forecast of revenue reserves, capital reserves, capital financing requirement and external borrowing (table 17).

**Table 17**

Balances	Brought forward (at 31/3/18)	Forecast balance at year end					
		2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Revenue balances (including MRP added back)							
Capital Receipts							
Less: Capital Financing Requirement							
Add: External Borrowing taken out							
Less: Borrowing repayments							
<b>Total forecast of available for investment</b>							

The Council needs to consider the following in determining how long it will invest any surplus cash for:

- The period that any particular cash balance is available for. If a balance is expected to be available over a long period then it is possible to invest it over a long period.
- How much might be required to cover short term variations in cash. For example, it could be forecast that the cash at the start and end of the month will be the same. But if there is a need to pay out half that cash at the start of the month before getting an equivalent amount just before the end, then there is a need to plan.
- The risk of investing for longer periods as it increases the chance that the counterparty could have financial problems and therefore not pay back the principal invested and/ or the interest due.
- The risk of investing for longer periods as it could lead to a lost opportunity. If the investment is at a fixed rate and then there is a general rise in rates available (e.g. due to an unexpected Bank of England base rate rise) then it would not be possible to take advantage of the new improved rates until the investment matures.

Before considering where the Council will invest any surplus cash in treasury investments, it firstly needs to consider any loans that it may want to make for other purposes. A local authority can choose to make loans to local enterprises, local charities, wholly owned companies and joint ventures. These loans can relate to service provision or to promote local economic growth. These loans may not seem prudent when considered purely in relation to security and liquidity. Table 18 details current and planned loans and shows the reasons for these loans, how their value is proportionate, the risk of loss and credit control arrangements that are in place.

**Table 18**

<b>Loan</b>	<b>Amount (£m)</b>	<b>Reason for Loan</b>	<b>Proportionality of value</b>	<b>Expected Credit Loss model and credit control</b>
Building Control				

When the Council invests its surplus cash it seeks to find reliable counterparties to ensure that the amount invested (and the interest earned) is returned. The following criteria are used to determine the list of counterparties:

- UK Local Authorities- as they are able to raise additional funds from taxation
- UK Government- including Gilts and Debt Management Account Deposit Facility (DMADF)
- UK Banks and Building Societies with a Fitch Credit rating of BBB (long-term)/ F3 (short-term) or greater- as they have been subject to UK 'stress tests' and also have a high credit rating
- Part-nationalised UK banks- as they have been subject to UK 'stress tests' and the UK government has an increased interest in not allowing them to fail.
- The Council's own banker (Lloyds) that it uses for transactional purposes. Although if its credit rating falls below BBB then any balances will be kept to a minimum (i.e. for cashflow purposes only)
- Non-UK banks with a UK subsidiary that have a Fitch Credit rating of BBB (long-term)/ F3 (short-term) or greater, and are subject to the same stress tests as UK banks
- Unrated UK Building Societies- as organisations have to pay to obtain a rating; most Building Societies do not get one. They do produce annual reports known as Pillar 3 reports, and these will be used to assess their credit worthiness. Furthermore the Council will only invest in Building Societies that have assets of at least £300m, which limits the potential exposure.
- Money Market funds that are AAA rated and denominated in Sterling.
- Property funds that hold property within the UK.

The Council will seek to appropriately diversify its investments across a range of types and counterparties. This means that if there were any security or liquidity issues with a particular type of investment or counterparty, the Council would still have access to the majority of its funds. The limits are initially based on a percentage of total funds, but are converted to actual values to make the administration of investments more efficient. The values are calculated by applying the percentages to the expected minimum investment balance (during 2019/20) and then rounded to the nearest £500k. If these limits are set too low then it limits the investment opportunities available and also increases the administration as there is then a need to find more places to invest available funds. The limits are shown in table 19 below.

**Table 19**

<b>Investment Type</b>	<b>Maximum amount in that type of investment (£m)</b>	<b>Maximum amount in group (£m)</b>	<b>Maximum amount with any individual counterparty (£m)</b>	<b>Rationale and details</b>
UK Local Authorities		n/a		10% with any one counterparty, 50% with Local Authorities in total
UK Banks				10% with any one counterparty, 15% with institutions in the same banking group, 50% with UK banks in total
UK Building Societies- assets of £300m to £1bn				10% with any one counterparty subject to maximum of £4m. Maximum of 50% with UK Building Societies.
UK Building Societies- assets over £1bn				10% with any one counterparty subject to maximum of £6m. Maximum of 50% with UK Building Societies.
UK Property Funds				25% in any one fund or combination of funds. Maximum of 50% in Property Funds and Building Societies combined.
UK Government	n/a	n/a		No limits, set at 100%
UK Money Market Funds				Tbc

The Council will primarily limit its liquidity risk by only investing money until it thinks it will next need it. On top of this it will also have a general limit on investments that are greater than 1 year (365 days). This limit is based on 40% of total investments, but is again reflected as an absolute value of £Xm, which is based on 40% of the expected minimum level of investments during the year. Investments with a set term of greater than 2 years will be subject to approval by the Chief Finance Officer, which will include a consideration of how much the investment will be as a percentage of total funds at the date it matures. It will be ensured that this is less than 40%. No investment term will exceed 5 years.

Investment funds (money market funds and property funds) do not have a set term and funds can be withdrawn at any time. Investment balances will be kept under review to ensure that they do not exceed the maximum amount set by this or subsequent treasury strategies. However there is no time limit on the period that funds can be held invested for. For property funds there are both up-front set up and exit costs. Furthermore, the capital value of these funds also fluctuates over time. So whilst in general it is possible to exit these funds at any time, there are likely to be more optimum times to do so. Therefore it is expected that the period of investment could exceed 5 years.

In general the Council will access treasury deals directly, rather than using a cash manager. In the current market, the Council is able to get the same (or very similar) rates as a cash manager and this therefore avoids the fees charged by the cash manager. However the Council will use a cash manager (Tradition) where it provides access to a better investment rate after accounting for the fees. As the actual investment will be with a counterparty, the Council will not set any limits on the number or value of deals that are accessed via Tradition.



There is some link between the interest rates that the Council can expect to achieve on its investments and the Bank of England base rate. Our treasury advisors (Link) have provided the following forecasts of base rates over the next 5 years. Using this and the investment limits above, we have estimated an average interest rate that the Council will achieve on its investments in each year.

**Table 20**

Year	Forecast of Bank of England Base Rate as at end of the year (%)	Forecast of average interest earned on investments (%)
2018/19		
2019/20		
2020/21		
2021/22		
2022/23		
2023/24		

Combining these average interest rates with expected balances, gives a forecast of the interest that will be earned in each year.

**Table 21**

	2019/20	2020/21	2021/22	2022/23	2023/24
Forecast of average balance available for investment (£m)					
Forecast of average interest earned on investments (%)					
Forecast of interest earned (£m)					

The Council is required to set a prudential indicator that estimates financing costs (cost of borrowing less income from investments) as a percentage of its net revenue budget.

**Prudential Indicator 8: Forecast of Financing Costs as a percentage of net revenue budget**

Year	Cost of borrowing £m	Less: Forecast of interest earned £m	Net Financing costs £m	Net Revenue Budget £m	Financing Costs as a % of Net Revenue Budget £m
2019/20					
2020/21					
2021/22					
2022/23					
2023/24					

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