Agenda

Meeting: **Audit Committee**

Venue: **Grand Meeting Room, County Hall, Northallerton**

Date: **Thursday 5 March 2015 at 1.30 pm**

Note: **Members are invited to attend a Training Seminar at 11 am in Room 7.**

Members are invited to attend a briefing meeting concerning Health & Social Care Integration at 1.00 pm in the Grand Meeting Room.

Recording is allowed at County Council, committee and sub-committee meetings which are open to the public, subject to:- (i) the recording being conducted under the direction of the Chairman of the meeting; and (ii) compliance with the Council's protocol on audio/visual recording and photography at meetings, a copy of which is available to download below. Anyone wishing to record must contact, prior to the start of the meeting, the Officer whose details are at the foot of the first page of the Agenda. Any recording must be clearly visible to anyone at the meeting and be non-disruptive. http://democracy.northyorks.gov.uk/

Business

1. **Minutes of the meeting held on 4 December 2014.**

   (Pages 1 to 8)

2. **Exclusion of the Public** - The Committee is recommended to approve the following:– That the public be excluded from the meeting during consideration of Appendices 3 and 4 to the report 'Counter Fraud and Associated Matters' on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government (Access to Information)(Variation) Order 2006.

Enquiries relating to this agenda please contact Mary Davies **Tel: 01609 532840** Fax: **01609 780447** or e-mail mary.davies@northyorks.gov.uk www.northyorks.gov.uk

3. **Public Questions or Statements.**

> Members of the public may ask questions or make statements at this meeting if they have given notice to Mary Davies of Democratic Services *(contact details above)* by midday on Monday 2 March 2015. Each speaker should limit themselves to 3 minutes on any item. Members of the public who have given notice will be invited to speak:-
>
> - at this point in the meeting if their questions/statements relate to matters which are not otherwise on the Agenda (subject to an overall time limit of 30 minutes);
>
> - when the relevant Agenda item is being considered if they wish to speak on a matter which is on the Agenda for this meeting.
>
> If you are exercising your right to speak at this meeting, but do not wish to be recorded, please inform the Chairman who will instruct those taking a recording to cease while you speak.

4. **Progress on Issues Raised by the Committee** – Joint report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services).
(Pages 9 to 12)

5. **Progress on 2014/15 Internal Audit Plan -** Report of the Head of Internal Audit.
(Pages 13 to 17)

6. **Draft Internal Audit Plan for 2015/16 -** Report of the Head of Internal Audit.
(Pages 18 to 29)

7. **Internal Audit Work / Internal Control Matters for the Central Services Directorate:-**

    (a) Report of the Head of Internal Audit. **(Pages 30 to 40)**

    (b) Report of the Corporate Director - Strategic Resources.
    (Pages 41 to 57)

8. **Counter Fraud and Associated Matters -** Report of the Head of Internal Audit.
(Pages 58 to 82.
Private appendices 3 and 4 circulated to Members only - Pages 83 to 96)

9. **Treasury Management** – Report of the Corporate Director - Strategic Resources.
(Pages 97 to 165)

10. **Corporate Procurement Strategy -** Report of the Corporate Director - Strategic Resources.
(Pages 166 to 182)

11. **Programme of Work** – Report of the Corporate Director – Strategic Resources.
(Page 183)

12. **Other business which the Chairman agrees should be considered as a matter of urgency because of special circumstances.**

Barry Khan
Assistant Chief Executive (Legal and Democratic Services)

County Hall
Northallerton

25 February 2015

Notes:

(a) Members are reminded of the need to consider whether they have any interests to declare on any of the items on this agenda and, if so, of the need to explain the reason(s) why they have any interest when making a declaration.

The relevant Democratic Support Officer or Monitoring Officer will be pleased to advise on interest issues. Ideally their views should be sought as soon as possible and preferably prior to the day of the meeting, so that time is available to explore adequately any issues that might arise.

(b) **Emergency Procedures for Meetings**

Fire

The fire evacuation alarm is a continuous Klaxon. On hearing this you should leave the building by the nearest safe fire exit. From the **Grand Meeting Room** this is the main entrance stairway. If the main stairway is unsafe use either of the staircases at the end of the corridor. Once outside the building please proceed to the fire assembly point outside the main entrance

Persons should not re-enter the building until authorised to do so by the Fire and Rescue Service or the Emergency Co-ordinator.

An intermittent alarm indicates an emergency in nearby building. It is not necessary to evacuate the building but you should be ready for instructions from the Fire Warden.

Accident or Illness

First Aid treatment can be obtained by telephoning Extension 7575.

AUDIT COMMITTEE

1. Membership

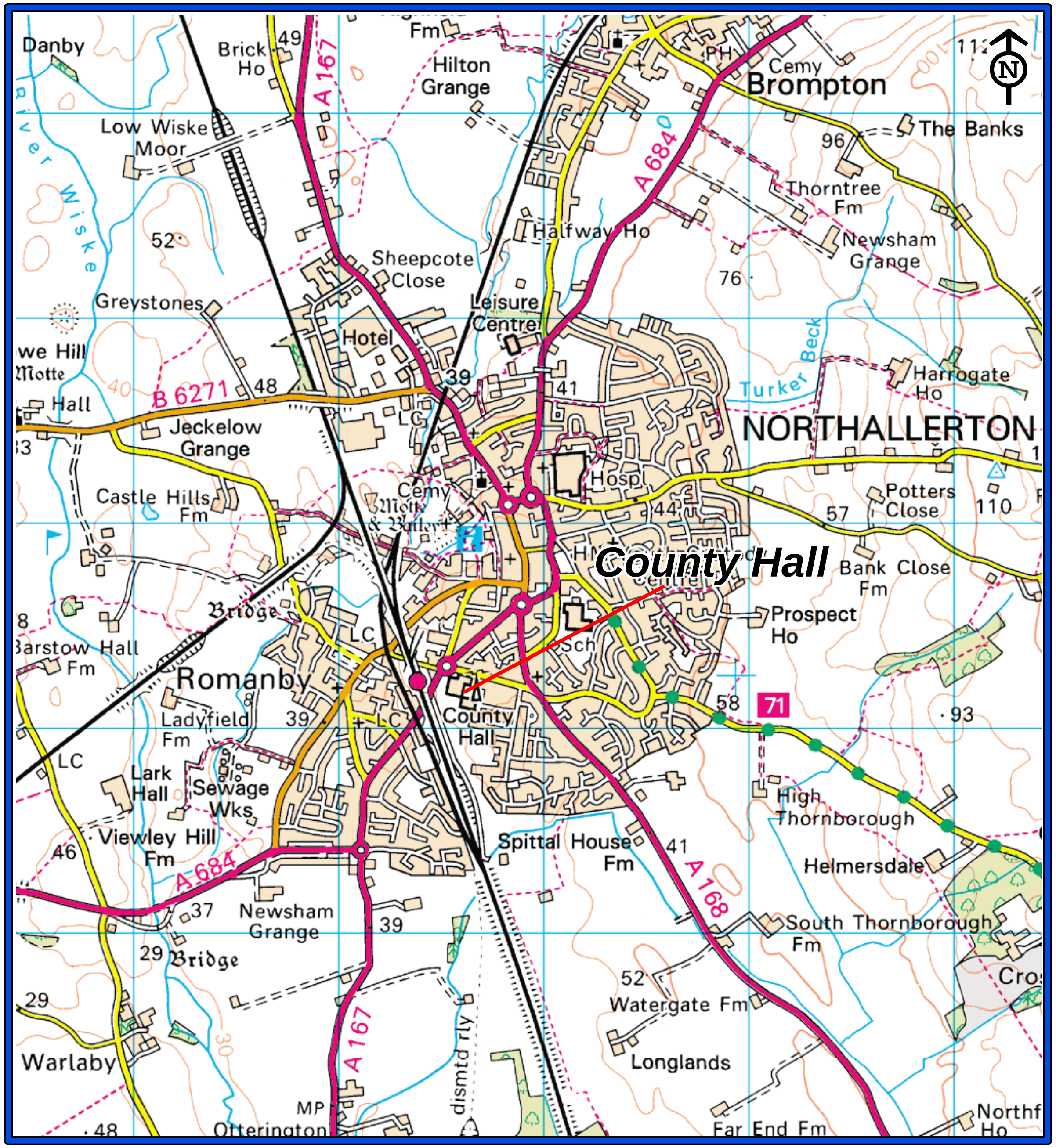
County Councillors (8)			
	Councillors Names		*Political Party*
1	ATKINSON, Margaret	(Vice-Chairman)	Conservative
2	BACKHOUSE, Andrew	(Chairman)	Conservative
3	BROADBENT, Eric		Labour
4	CHANCE, David		Conservative
5	CLARK, Jim		Conservative
6	GRANT, Helen		NY Independent
7	HOULT, Bill		Liberal Democrat
8	JORDAN, Mike		Conservative

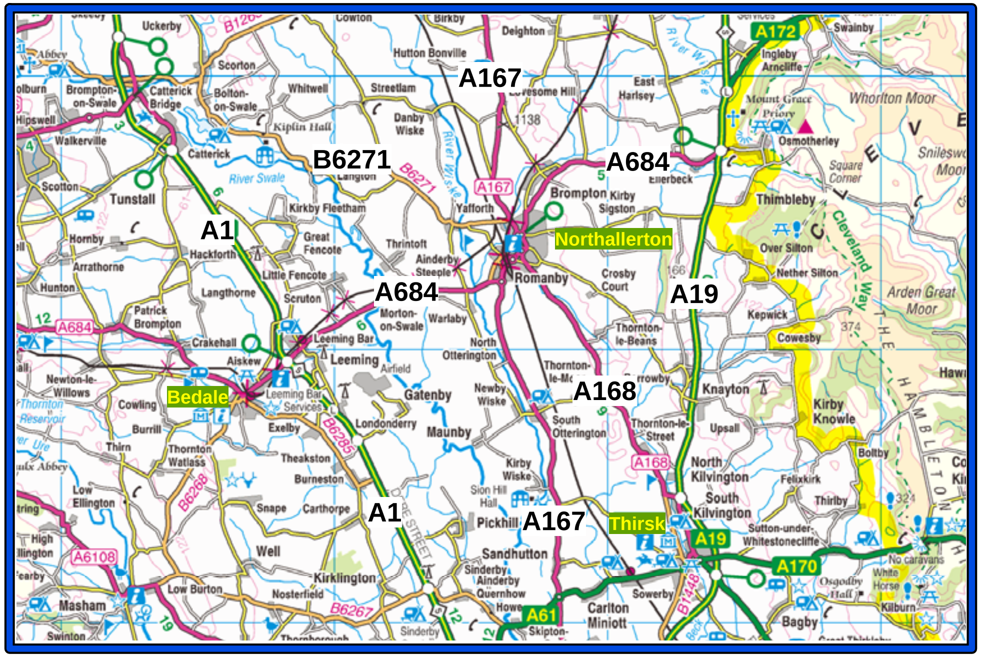
Members other than County Councillors (3)	
1	Vacancy
2	Vacancy
3	Vacancy

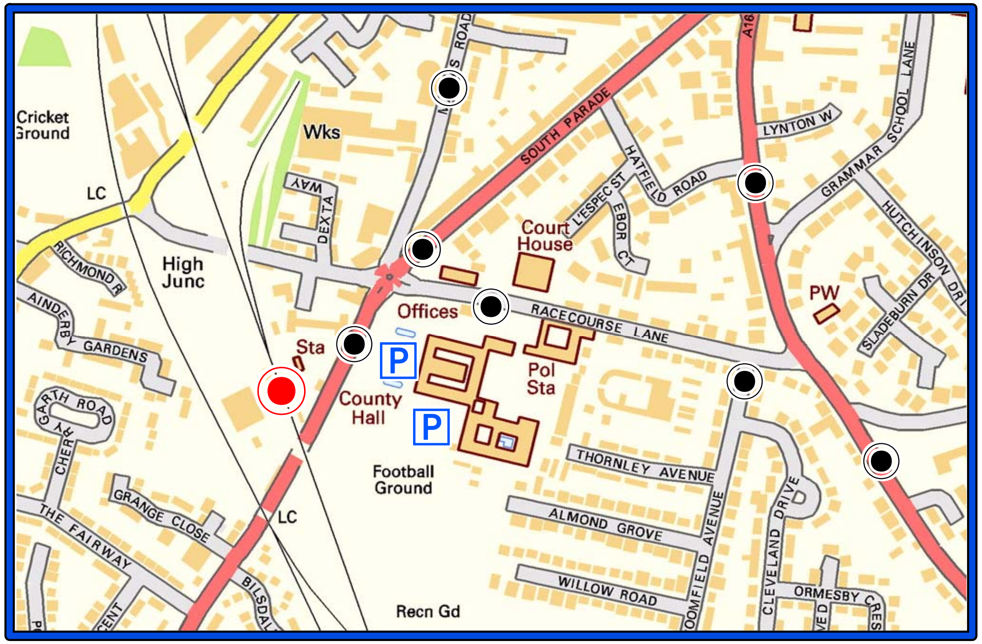
Total Membership – (11)				Quorum – (3) County Councillors			
Con	**Lib Dem**	**NY Ind**	**Labour**	**Liberal**	**UKIP**	**Ind**	**Total**
5	1	1	1	0	0	0	

2. Substitute Members

Conservative		Liberal Democrat	
	Councillors Names		*Councillors Names*
1	FORT, John BEM	**1**	De COURCEY-BAYLEY, Margaret-Ann
2	HARRISON-TOPHAM, Roger	**2**	
3	SANDERSON, Janet	**3**	
4	METCALFE, Chris	**4**	
5		**5**	
NY Independent		**Labour**	
	Councillors Names		*Councillors Names*
1	BLACKIE, John	**1**	SHAW-WRIGHT, Steve
2	JEFFERSON, Janet	**2**	
3		**3**	
4		**4**	
5		**5**	







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North Yorkshire County Council

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 4 December 2014 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillor Andrew Backhouse (in the Chair); County Councillors Margaret Atkinson, Eric Broadbent, David Chance, Jim Clark, Helen Grant, Bill Hoult and Mike Jordan.

External Members of the Committee:-

Mr David Marsh and Mr David Portlock.

In Attendance:-

County Councillor Carl Les (Executive Member for Central and Financial Services including assets, IT and procurement) and County Council Gareth Dadd (Executive Member for Business and Environmental Services including Highways and Planning Services).

Deloitte LLP Officers: Celia Craig

Veritau Ltd Officer: Max Thomas (Head of Internal Audit).

County Council Officers: David Bowe (Corporate Director – Business and Environmental Services), Gary Fielding (Corporate Director – Strategic Resources), Peter Yates (Assistant Director - Corporate Accountancy), Fiona Sowerby (Corporate Risk and Insurance Manager (Central Finance (CSD)), Simon Toplass (Head of Procurement and Contract Management (Central Services)), Trevor Clilverd (Assistant Director, Strategic Resources (CSD)) and Mary Davies (Senior Democratic Services Officer),

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Copies of all documents considered are in the Minute Book

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93. Minutes

Resolved –

That the Minutes of the meeting held on 25 September 2014, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

94. Public Questions or Statements

There were no public questions or statements from members of the public.

95. Appointment of External Members of the Committee

Considered -

The report of the Chairman of the Committee seeking the Committee's approval to the recommendation of the Panel of Members which interviewed candidates for appointment as External Members of this Committee.

The Chairman asked David Marsh and David Portlock to introduce themselves to the Committee.

Resolved -

(a) That David Marsh and David Portlock be appointed as non-voting External Members of Audit Committee, to serve for the remaining life of the County Council plus up to a further 12 months.

(b) That no action be taken to recruit to the third seat of External Member on Audit Committee.

96. Progress on Issues Raised by the Committee

County Councillor Mike Jordan declared a declared a non-pecuniary interest as he was a Member of Selby District Council in regard to page 12 paragraph 3 (ii) of the report concerning the 'Better Together' programme with Selby District Council.

Considered -

The joint report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services) which advised of progress on issues which the Committee had raised at previous meetings, and provided an update on matters that had arisen since the last meeting that relate to the work of the Committee.

The Corporate Director – Strategic Resources confirmed in future reports concerning Directorates' Risk Register would be presented without the % box.

Resolved -

That the report be noted.

97. External Auditor's Annual Audit Letter on the 2013/14 Audit

Considered -

The External Auditor's Annual Audit Letter on the 2013/14 audit summarising the key matters arising from the work that Deloitte LLP carried out in respect of the year ended 31 March 2014.

Celia Craig (Deloitte LLP) introduced the Annual Audit Letter. She made one point of clarification on page 21 of the report; audit fees in regard to questions from members of the public had not been included in the original price, this amounted to £3K of additional work which had been approved by the Audit Commission. Celia Craig confirmed that the Auditor's Annual Audit letter appeared on the Audit Commission's Website.

During discussion Members noted references to the high standard of help received from finance staff which Members considered a compliment to staff.

Resolved -

That the Annual Audit Letter be noted.

98. Accounting Policies

Considered -

The report of the Corporate Director - Strategic Resources asking the Committee to review the changes to the County Council's Accounting Policies for the current financial year 2014/15 and noting potential changes in the pipeline that are likely to impact on future year's Accounting Policies and the Statement of Final Accounts.

The Assistant Director - Corporate Accountancy also advised on future changes to accounting for assets.

Questions were asked about the potential impact on revaluation of County Council assets but it was noted that book valuations of highways would not necessarily reflect increases in land values in the surrounding areas.

Resolved -

(a) That the 2014/15 change in Accounting Policy required to comply with the 2014 'Code of Practice on Local Authority Accounting' as set out in paragraph 3.5 and Appendix A of the report be noted.

(b) That the potential changes to the SOFA and Accounting Policies which are in the pipeline for future years (2015/16 onwards) as set out in paragraph 4 and Appendix B of the report be noted.

99. Contract Management

Considered -

The report of the Corporate Director - Strategic Resources informing Members of the arrangements relating to contract management within the County Council and the principles of good contract management, describing the developing strategic direction of the Corporate Procurement Group to improving contract management within the Council, providing Members with an analysis of the future challenges and risks the Council faces in terms of contract management and updating Members of recent activity and next steps.

In introducing the report the Corporate Director - Strategic Resources highlighted the huge challenges to the public sector particularly at the present time.

The Head of Procurement and Contract Management advised that the County Council relied on a small number of suppliers and advised that the Council had rigorous processes in place;

The Head of Procurement and Contract Management referred to paragraph 4.1 of the report; the themes from the renewed strategy that would underpin the Action Plan for contract management. Each element was linked to the strategy identifying contract managers to ensure they were able to carry out their duties. Contract management if performed well would recoup costs and savings.

The Corporate Director - Strategic Resources advised on the importance on skilling up staff so that they were better equipped to deal with commercial organisations.

Various Committee members noted the potential for skills transfer and setting up a bank of individuals who had been in the contract management field and who could be commissioned, when needed, to bring in their expertise. The Corporate Director - Strategic Resources advised currently of a fixed 12 month post which would be reviewed annually where the post was to be self-funding. Members supported the concept and questioned whether further resources of this nature were required.

Referring to paragraph 6.1 of the report, a Member queried internal audit and the potential for conflict. The Head of Internal Audit advised of communication with other local authorities who recognised the pressures to be more commercial and to develop and train contract managers. Audit would focus on the need to invest and train and avoid conflicts of interest; they were aware of the challenges not to be involved in making decisions. The Corporate Director - Strategic Resources advised that the Corporate Procurement Strategy in March 2015 had a more strategic approach and that it was useful to have a different perspective from Internal Audit in the room. A Member considered it vital to ensure internal audit's independence as the Audit Committee relied on their independence and objectivity in reports.

Resolved -

(a) That the report be noted.

(b) That the comments provided by Members in order to feed into the emerging Corporate Procurement Strategy and particularly those areas relating to Contract Management be noted.

100. Audit Committee Terms of Reference

Considered -

The report of the Corporate Director - Strategic Resources reviewing the Audit Committee's Terms of Reference in line with the requirements to review the Terms of Reference on an annual basis.

The Corporate Director - Strategic Resources introduced the report highlighting the obligation to review annually. This was an opportunity to look at any further needs in order to improve the effectiveness of the Committee. He advised that the two new Members and a new County Councillor would each receive an induction and this opened an opportunity for training to any other Member of the Audit Committee.

The Chairman suggested that a half hour slot prior to the commencement of the Committee meeting was not sufficient. Following a debate it was agreed to hold a one hour meeting and then take a break before beginning the Committee meeting in future. The Corporate Director – Strategic Resources was to provide a draft programme of subjects.

Resolved -

(a) That the existing Terms of Reference for the Audit Committee (ie no changes) are approved.

(b) That the intention of providing more detailed training/development for the areas identified in paragraph 4.2 of the report be approved.

(c) That the Corporate Director – Strategic Resources provides a draft programme of training and additional subject matters.

101. Internal Audit Work and Related Internal Controls for the Business and Environmental Services Directorate

(a) **Report of the Head of Internal Audit**

Considered -

The report of the Head of Internal Audit informing Members of the internal audit work performed during the year ended 30 November 2014 for the Business and Environmental Services Directorate and giving an opinion on the system of internal control in respect of this area.

The Chairman welcomed David Bowe (Corporate Director – Business and Environmental Services) and County Council Gareth Dadds (Executive Member for Business and Environmental Services including Highways and Planning Services) to the meeting.

The Head of Internal Audit was satisfied with the progress that had been made by management to implement previously agreed actions necessary to address identified control weaknesses. In addition, his overall opinion on the framework of governance, risk management and control operating in the Business and Environmental Services directorate is that it provides substantial assurance.

During discussion, the following issues were highlighted:-

- Page 48 of the report concerning the existing contract with Jacobs which expired on 31 March 2016. The Corporate Director – Business and Environmental Services explained the role of Jacobs to ensure the delivery of the project.

- In answer to a question regarding Page 42, paragraph 3.2, bullet 3 of the report, the Head of Internal Audit gave his assurances that the internal audit team remained independent.

Resolved -

That the report be noted.

(b) **Report of the Corporate Director - Business and Environmental Services**

Considered -

The report of the Corporate Director - Business and Environmental Services updating Members of progress against the areas for improvement identified in the Business and Environmental Services Directorate's Statement of Assurance and providing details of the latest Risk Register for the BES Directorate.

The Assistant Director, Strategic Resources (CSD) provided details of a number of risks for the Directorate:-

- Long Term Waste Strategy
- 2020 North Yorkshire
- Local Enterprise partnership
- Capital programme

The Chairman provided opportunity for Members to comment on areas covered in the report.

During discussion, the following issues were highlighted:-

- Long Term Waste and the 'Teckal' requirements, the Corporate Director - Business and Environmental Services advised there was still further consideration of the issues to be taken including the management structure.

- Appendix A predicted shortfall and savings, the Assistant Director, Strategic Resources (CSD) referred to two items of savings for grass cutting and passenger transport.

- Appendix A (B) what was the bottom line on the minimum number of staff capacity against service delivery requirements. The Corporate Director - Business and Environmental Services advised of the restructure being undertaken and the statutory duty to deliver services.

- Assurances in regard to the Waste Management Strategy, the Corporate Director - Business and Environmental Services advised of the tight controls in place and the continual monitoring.

- Appendix C in regard to Interaction with a number of LEPs. The Corporate Director - Business and Environmental Services acknowledged this was a difficult area which changed day to day. He considered it was fair to put at this level. A Member noted his concern directing funds through the LEP, the Corporate Director - Business and Environmental Services acknowledged the implications of two overlapping LEP's.

Resolved -

(a) That the position on the Business and Environmental Services Directorate's Statement of Assurance be noted.

(b) That the Directorate's Risk Register be noted.

(c) That the feedback and comments made on the Statement of Assurance and the Directorate's Risk Register and any other related internal control issues be noted.

102. Progress on the 2014/15 Internal Audit Plan

Considered -

The report of the Head of Internal Audit updating Members of the progress made to date in delivering the 2014/15 Internal Audit Plan and any developments likely to impact on the Plan throughout the remainder of the financial year.

The Head of Internal Audit provided details of how work on the 2014/15 Audit Plan was progressing. He highlighted paragraph 3.6 of the report detailing proposed variations to the agreed Audit Plan and Appendix 4 of the report which considered minor changes to be necessary to the Audit Charter; auditors would not be assigned to review areas where they have had any direct operational or managerial involvement within the last year.

During discussion, the following issues were highlighted:-

- Any additional cost in regard to paragraph 3.6 of the report. The Head of Internal Audit advised there would be a small additional cost.

- In regard to paragraph 3.3 of the report, the Head of Internal Audit advised he could see no common theme of fraud across the County Council. The volume of FOI was increasing and becoming more complex taking more time for managers to complete.

- In regard to Appendix 3 of the report and how it was assessed, the Head of Internal Audit advised that internal audit had seen improvements in security checks and the trend of gradual improvement.

Resolved -

(a) That the progress made in delivering the 2014/15 Internal Audit programme of work and the variations agreed by the client officer be noted.

(b) That the proposed changes to the Audit Charter are approved.

(c) That the planned change to audit opinion be noted.

103. Risk Management - Progress Report

Considered -

The report of the Corporate Director - Strategic Resources asking the Committee to consider an updated Risk Management Policy, receive details of the updated Corporate Risk Register and receive details of the recent outcome of the Casualty (Liability) Insurance and Claims Handling Tender.

The Corporate Risk and Insurance Manager (Central Finance (CSD)) introduced the report highlighting three areas of the report:

- Risk Management Policy and Strategy update
- Tender for Casualty (Liability) Insurances update
- Corporate Risk Register

The Corporate Risk and Insurance Manager (Central Finance (CSD)) drew the Committee's attention to Appendix A to the report which showed the track changes to the Corporate Risk Management Policy.

During discussion, the following issues were highlighted:-

- When the Risk Management Policy had last been updated, The Corporate Risk and Insurance Manager (Central Finance (CSD)) advised of the County Council decision in May 2014 to update "at least" every three years.

- That Casualty Liability had gone out to tender due to the previous Insurers being unable to continue.

- The Corporate Risk and Insurance Manager (Central Finance (CSD)) was asked to explain paragraph 5.2 of the report; she advised the Risk Register was updated annually by Management Board.

Resolved -

(a) That the updated Corporate Risk Management Policy as set out in Appendix A of the report to the Chief Executive and Leader be approved.

(b) That the updated Corporate Risk Register as set out in Appendix B of the report be noted.

(c) That the recent outcome of the Casualty (Liability) Insurance and Claims Handling Tenders be noted.

104. Programme of Work

Considered –

The report of the Corporate Director - Strategic Resources which invited the Committee to review its programme of work for 2014/15.

The Corporate Director – Strategic Resources proposed various issues for possible inclusion within the Programme of Work. These proposals were supported by Members.

Resolved -

That the Programme of Work be amended to include the following as either formal or informal sessions:-

- Procurement
- Corporate Strategy
- That the informal discussion with the External Auditor be moved to the April meeting
- Information Governance

The meeting concluded at 3:28 pm.

MD/JR

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 March 2015

PROGRESS ON ISSUES RAISED BY THE COMMITTEE

Joint Report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services)

1.0 PURPOSE OF THE REPORT

1.1 To advise Members of

(i) progress on issues which the Committee has raised at previous meetings

(ii) other matters that have arisen since the last meeting and that relate to the work of the Committee

2.0 BACKGROUND

2.1 This report is submitted to each meeting listing the Committee's previous Resolutions and / or when it requested further information be submitted to future meetings. The table below represents the list of issues which were identified at previous Audit Committee meetings and which have not yet been resolved. The table also indicates where the issues are regarded as completed and will therefore not be carried forward to this agenda item at the next Audit Committee meeting.

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
05/12/13	45 – Information Governance	That an update version of the Information Governance Policy Map be circulated to Committee Members	Work is continuing to update and refresh the Information Governance Policy Framework. It was recognised that the existing list of policies needed to be consolidated and the contents updated to reflect current best practice. **Appendix 1** shows the new list of policies. The revised policies have been drafted and are currently out for consultation with directorate lead officers.	x
26/06/14	63 – Internal Audit work / internal control matters for the Children and Young People's	That the Corporate Director, Strategic Resources alter the alignment of Audit Committee meetings to which the various	To be addressed for meetings post September. Refreshing the Directorate Risk Registers has now	✓

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
	Services Directorate	Directorates report in order that Directorate Risk Registers submitted to those meetings are as up-to-date as possible.	been timetabled to align with Audit Committee dates.	

3.0 TREASURY MANAGEMENT

3.1 Current Treasury Management developments include

i. Arrangements were finalised for Selby District Council's cash funds to be invested as part of the County Council's total investment pool and this commenced on 23 December 2014. This is part of the wider "Better Together" programme with Selby District Council.

ii. Capita Asset Services updated their interest rate forecasts on 12 February 2015 to reflect latest economic developments and market sentiment including the plunge in the price of oil acting as a stimulus to economic growth, the possibility of CPI inflation turning slightly negative for a short period in mid-year 2015, the position in Greece, increased political risks around the UK May 2015 general election and the level of potential risk around several of the major emerging economies government and debt. Their forecast first increase in bank rate from 0.5% to 0.75% is now early 2016 with further increases of 0.25% to reach 2% by March 2018 based on the Governor of the Bank of England, Mark Carney, repeatedly stating that increases will be slow and gradual.

iii. An updated Treasury Management Strategy for 2015/16 was approved by Executive on 3 February 2015 followed by full Council on 18 February 2015. This is included as a specific item on today's agenda and incorporates an Investment Strategy, a Minimum Revenue Provision Policy and a policy cap Capital Financing costs as a proportion of the Annual Net Revenue Budget.

iv. In addition to the Treasury Management Strategy at (iii) above, Executive and Full Council also approved a series of required Capital and Treasury Management Prudential Indicators for the three years 2015/16 to 2017/18.

v. The 2015/16 Revenue Budget / MTFS report to Executive on 3 February 2015 and full Council on 18 February 2015 included a proposal to set aside up to £10m in the 2015/16 revenue budget for debt repayment / capital financing purposed. The timing of this and the preferred approach within the available options highlighted in the Budget report has not yet been finalised however. The ultimate actions taken will be reported to Executive members as part of the Quarterly Performance Monitoring reports and Audit Committee members receive a copy of the Q Treasury management reports which will incorporate this.

4.0 RECOMMENDATION

4.1 That the Committee considers whether any further follow-up action is required on any of the matters referred to in this report.

GARY FIELDING
Corporate Director – Strategic Resources

BARRY KHAN
Assistant Chief Executive
(Legal and Democratic Services)

County Hall
NORTHALLERTON

5 March 2015

Background Documents:
Report to, and Minutes of, Audit Committee meeting held on 4 December 2014

Information Governance / Security Policy Framework

1. Information Governance/Security

To Include:

Information risks (new – to cover information asset registers and associated risk assessments)
Data quality
Information Security (PO01)
Information security incident reporting
PO11 – Anti - Virus
PO16 – Monitoring
PO26 – Email
PO28 – Internet Usage
PO30 – GCSx Acceptable Usage
PO35 – Non NYCC Network Access

2. Data Protection

To include:

Charges for enquiries
Data processing (by contractors)
Information sharing with partners
Privacy statement
Security classifications

3. Freedom of Information

4. Records Management

To Include:

Records management
Scanning

5. Technical Security (Technical IT policies)

To Include:

PO09 – ICT Access Policy (previously CIGG)
PO10 – Portable Media and Encryption (previously CIGG)
PO23 – ICT Remote Working Policy (previously CIGG)
PO24 – Software Policy (previously CIGG)
PO25 – Blackberry Policy (previously CIGG) [to be re-named mobile phones]

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 MARCH 2015

PROGRESS ON 2014/15 INTERNAL AUDIT PLAN

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

1.1 To inform Members of the progress made to date in delivering the 2014/15 Internal Audit Plan and any developments likely to impact on the Plan throughout the remainder of the financial year.

2.0 BACKGROUND

2.1 Members approved the 2014/15 Audit Plan on the 6 March 2014. The total number of planned audit days for 2014/15 is 1,495 (plus 1,085 days for other work including counter fraud and information governance). The performance target for Veritau is to deliver 93% of the agreed Audit Plan.

2.2 This report provides details of how work on the 2014/15 Audit Plan is progressing.

3.0 INTERNAL AUDIT PLAN PROGRESS BY 31 JANUARY 2015

3.1 The internal audit performance targets for 2014/15 were set by the County Council's client officer. Progress against these performance targets, as at 31 January 2015, is detailed in **Appendix 1**.

3.2 Work is ongoing to complete the agreed programme of work. It is anticipated that the 93% target for the year will be exceeded by the end of April 2015 (the cut off point for 2014/15 audits). **Appendix 2** provides details of the final reports issued in the period. A further 13 audit reports have been issued but are still in draft.

Contingency and Counter Fraud Work

3.3 Veritau continues to handle cases of suspected fraud or malpractice. Such assignments are carried out in response to issues raised by staff or members of the public via the Whistleblower Hotline, or as a result of management raising concerns. Since the start of the current financial year, 37 cases of suspected fraud or malpractice have been referred to Veritau for investigation. A number of these investigations are still ongoing. Further details are provided as part of the fraud update which is a separate item on this agenda.

Information Governance

3.4 Veritau's Information Governance Team (IGT) continues to handle a significant number of information requests submitted under the Freedom of Information and Data Protection Acts. The number of FOI requests received continues to grow with a total of 1,104 requests received between 1 April 2014 and 31 January 2015 compared with 1,054 requests received during the corresponding period in 2013/14 (a 4.7% increase). The IGT is currently exceeding the performance response target of 95% for 2014/15 with 97.6% of requests so far being answered within the statutory 20 day deadline. The IGT also coordinates the County Council's subject access requests (excluding social care) and has received 41 such requests between 1 April 2014 and 31 January 2015 compared to 49 in the same period in 2013/14.

3.5 Veritau is continuing to assist with the implementation of the County Council's information governance framework. As part of this, Veritau auditors are currently undertaking a programme of unannounced audit visits to County Council premises in order to assess staff awareness of the need to secure personal and sensitive information.

Variations to the 2014/15 Audit Plan

3.6 All proposed variations to the agreed Audit Plan arising as the result of emerging issues and/or requests from directorates are subject to a Change Control process. Where the variation exceeds 5 days then the change must be authorised by the client officer. Any significant variations will then be communicated to the Audit Committee for information. The following variations have been authorised since the last report to this committee in December 2014. The variations follow discussions with HAS directorate management and reflect current developments in this area:

Care Home / Domiciliary Care (Quality Assurance Framework)	-20 days
HAS operational systems (Liquid Logic)	+20 days
Care home visits (additional time allocation)	+10 days
HAS Client Resource Centres	+10 days
Contingency	-20 days
Net change to plan	**nil**

Follow Up of Agreed Actions

3.7 Veritau follow up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. A new escalation procedure has been introduced to formalise the reporting process in the event that agreed actions are not implemented or management fail to provide adequate information to enable an assessment to be made. At this stage in the year, there are no actions which have needed to be escalated. On the basis of the follow up work undertaken during the year to date, the Head of Internal Audit is therefore satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.

4.0 **RECOMMENDATION**

4.1 Members are asked to note the progress made in delivering the 2014/15 Internal Audit programme of work and the variations agreed by the client officer.

Report prepared and presented by Max Thomas, Head of Internal Audit

Max Thomas
Head of Internal Audit
Veritau Limited
County Hall
Northallerton

10 February 2015

Background Documents: Relevant audit reports kept by Veritau at 50 South Parade, Northallerton.

PROGRESS AGAINST 2014/15 PERFORMANCE TARGETS (AS AT 31/1/2015)

Indicator	Milestone	Position at 31/1/2015
To deliver 93% of the agreed Internal Audit Plan.	93% by 30/4/15	51.46%
To achieve a positive customer satisfaction rating of 95%	95% by 31/3/15	100.00%
To ensure 95% of Priority 1 recommendations made are agreed.	95% by 31/3/15	100.00%
To ensure 95% of FOI requests are answered within the Statutory deadline of 20 working days.	95% by 31/3/15	97.64%

FINAL 2014/15 AUDIT REPORTS ISSUED TO DATE

Audit Area	Directorate	Overall Opinion
Local Transport Body	BES	High assurance
LEP governance	BES	Substantial assurance
Waste Management - Income & Charging	BES	N/A[1]
Local authority bus subsidy grant 2013/14 certification	BES	N/A
Local Welfare Assistance scheme	CS	Substantial assurance
Capital contract (Catterick Bridge, masonry repair)	Contract	High assurance
Framework agreements	Contract	Substantial assurance
Information security compliance (Ryedale House)	Corporate	Moderate assurance
Information security compliance (Manor Road)	Corporate	Limited assurance
Information security compliance (Sandpiper House)	Corporate	Moderate assurance
Information security compliance (Dean Road)	Corporate	High assurance
Information security compliance (Crayke House)	Corporate	Substantial assurance
Information security compliance (Belle Vue Square)	Corporate	Limited assurance
Scarborough Pupil Referral Unit	CYPS	Substantial assurance
Children and families establishment (Morton on Swale)	CYPS	Substantial assurance
Children and families establishment (Woodleigh)	CYPS	High assurance
Beck House / Nidderdale Children's Resource Centre	CYPS	N/A[2]
Moorside Junior School – follow up	CYPS	Substantial assurance
Fairer contributions	HAS	Substantial assurance
Public health	HAS	Substantial assurance
Care home visit (Meadow Lodge)	HAS	Substantial assurance
Care home visit (Skell Lodge)	HAS	Substantial assurance
Care home visit (Westfield, Killinghall)	HAS	Substantial assurance
Care home visit (Sabre Court, Scarborough)	HAS	High assurance
Care home visit (Beanlands, Glusburn)	HAS	High assurance
Care home visit (Spring Cottage, Norton)	HAS	Substantial assurance
Care home visit (Nydsley, Pately Bridge)	HAS	High assurance
Care home visit (The Holt, Hutton Buscel)	HAS	High assurance
Care home visit (Rosefern, Scarborough)	HAS	High assurance
Care home visits – composite report	HAS	N/A
Lagan CRM – general IT controls	ICT	Moderate assurance
My View – general IT controls	ICT	Substantial assurance
EDRMS – general IT controls	ICT	Reasonable assurance

Note 1 – review of the new charging arrangements at Waste Recycling Centres
Note 2 – review of petty cash arrangements

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 MARCH 2015

INTERNAL AUDIT PLAN FOR 2015/16

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

1.1 To seek Members' views on the priorities for internal audit in 2015/16, to inform the preparation of the annual audit plan.

2.0 BACKGROUND

2.1 In accordance with professional standards[1] and the County Council's Audit Charter, internal audit plans are prepared on the basis of a risk assessment. This is intended to ensure that limited audit resources are prioritised towards those systems and areas which are considered to be the most risky and/or which contribute the most to the achievement of the County Council's corporate priorities and objectives. Consultation with Members and senior council officers is an essential part of the risk assessment process. As in previous years, the outline audit plan is therefore being presented to the Audit Committee for consideration.

3.0 AUDIT PLAN 2015/16

3.1 The outline Internal Audit Plan for 2015/16 is attached at **Appendix 1.** The Plan details the proposed audits within each directorate or specialist area. The risk assessment process takes account of the County Council's corporate and directorate risk registers, known risk areas (for example areas of concern highlighted by management), the results of recent audit work and other changes in County Council services and systems. The Committee will be asked to approve the final plan at the next meeting in April.

3.2 The draft Plan is intended to reflect the County Council's priorities for the coming year together with the financial and other pressures it faces. The Plan includes:

[1] As set out in the Public Sector Internal Audit Standards and specific guidance on the application of those standards for local government, issued by CIPFA.

- systems where the volume and value of transactions processed are significant, or where the possible impact of any system failure is high, making the continued operation of regular controls essential;

- areas of known concern, where a review of risks and controls will add value to operations;

- areas of significant change where the audit work may focus on (a) direct support to projects, (b) a review of project management arrangements, or (c) consideration of the impact of those changes on the control environment for example where the reduction in resources may result in fewer controls.

In particular, continued support will be given to the 2020 North Yorkshire programme and individual projects, ongoing data security compliance and the changes arising from the implementation of the Care Act 2014.

3.3 Members should note that the proposed Plan for 2015/16 has 262 fewer days of internal audit coverage compared to 2014/15 due to the need to deliver savings as part of the County Council's budget plans. This represents a 14% reduction in overall coverage. To minimise the possible impact of this reduction it is therefore important that audit resources are used effectively and continue to focus on those areas which will add the most value. Continued dialogue and collaboration with management is needed to ensure that any new risks or changed priorities are identified and reflected in planned work. In addition, the audit approach will be increasingly forward looking, providing assurance to management in areas of change rather than concentrating on past events.

3.4 The views of senior management across the County Council have canvassed. This consultation process is still ongoing and, where appropriate, the Plan will be amended to take their views into consideration. Indeed, the Plan will continue to evolve throughout the year to take account of changes in the Council's priorities and risk profile. The Plan should therefore be viewed as a relatively flexible document.

3.5 A Fraud and Loss Risk Assessment (included in a separate report on this agenda) has been prepared. Based on this Assessment, specific audits have also been included in the Plan to address areas where there is considered to be a greater risk of fraud and corruption.

3.6 The draft Plan is being discussed with the County Council's external auditor, Deloittes LLP so as to reduce the risk of overlap and to maximise the benefit of audit provision.

4.0 RECOMMENDATION

4.1 Members are requested to consider and comment on the outline Internal Audit Plan for 2015/16 and to identify any specific areas which should be considered a priority for audit.

Report prepared and presented by Max Thomas, Head of Internal Audit

MAX THOMAS
Head of Internal Audit
Veritau Limited
County Hall
Northallerton

10 February 2015

Background Documents: None

NORTH YORKSHIRE COUNTY COUNCIL

DRAFT INTERNAL AUDIT PLAN – 2015/16

1 CORPORATE / CROSS CUTTING

2020 North Yorkshire review of projects (including wider customer programme)

To provide advice, guidance and challenge to the programme. The allocation of time may include assurance on overall monitoring and governance arrangements and/or support to specific work streams or aspects of the programme. We will review a sample of schemes to consider the extent to which 2020 North Yorkshire procedures, aims and objectives are being delivered.

2020 Finance

To provide advice, guidance and challenge to the programme. The allocation of time will include two specific reviews. The first will provide assurance that the control environment remains effective. The second review will examine whether the ‘new ways of working’ are delivering the expected outcomes.

Information governance (data breaches)

An allocation of time to investigate significant data security incidents and/or provide support to other internal investigations.

Information governance (data security compliance)

A programme of unannounced information security compliance audits. The audits will cover a variety of council premises with a focus on those considered to be high risk.

Risk management

A review of the Council’s risk management processes.

Payroll / HR

A review of payroll / HR controls and processing.

Reorganisation, restructure and redundancy

A review of the processes for carrying out reorganisations and restructures within the council. The audit will include an examination of redeployment arrangements and the calculation of redundancy payments.

2 HEALTH AND ADULT SERVICES

Liquid Logic and ContrOCC

The audit will provide support, challenge and assurance in two areas. The first involves the ongoing work being done by officers to ensure phase 1 arrangements for operating the Liquid Logic and ContrOCC systems are embedded and working as designed. This work will include a follow up to the findings from our work in 2014/15. The second part of the audit will examine the arrangements being introduced in respect of the Provider Portal phase 2 development of both systems.

Liquid Logic and ContrOCC (post implementation review)

To consider the extent to which the introduction of these two systems in April 2014 has met the original business aims and objectives. The audit will also consider whether there are any 'lessons to learn' for HAS and the wider Council.

Review of domiciliary care contracting

A review of key elements of phase 1 of the domiciliary care contracts tender exercise. The audit will consider the robustness of the arrangements followed and seek to inform management's decision making for phase 2. The audit will also review the electronic real time recording system and determine the extent to which the potential benefits of the system for care providers and the council have been evaluated.

Care homes

To work closely with officers to develop the Council's internal control arrangements for managing and safeguarding the financial affairs of service users. To provide support and ad-hoc guidance to officers on specific cases involving financial matters. The allocation of time will also include visits to 8 care homes (both external and Council operated) to provide assurance that appropriate financial controls are in place and operating effectively.

Better Care Fund

The Better Care Fund (BCF) is intended support transformation and integration of health and social care services to ensure local people receive better care. The Council's BCF plan has been approved and involves expenditure of £46m in 2015/16. Work is ongoing to establish the necessary arrangements to support the implementation of the plan. The allocation of time is to provide advice, guidance and challenge to support the newly established arrangements.

Care Act (implementation and service changes)

The audit will review information governance and other relevant risks associated with the Carers Resource Centres.

The audit will also consider how management are developing the necessary arrangements to address the other key requirements of the Care Act.

Extra care housing

To review the actions taken by management to mitigate the risks associated with the Extra Care Housing lettings framework which is to be finalised by the Council in 2015/16.

Public Health

A review of the effectiveness of the governance arrangements in place to deliver Public Health outcomes in North Yorkshire. The audit will include the new areas of Public Health spend in 2015/16.

Deprivation of Liberty Safeguards (DoLS)

A review of the key risks and management arrangements associated with decision making in this area following the Supreme Court ruling in March 2014.

3 BUSINESS AND ENVIRONMENTAL SERVICES

Highways maintenance contract

A detailed review of a range of risk areas associated with the contract. The specific areas will be agreed with management although it is likely they will include contract management arrangements, performance and data quality, and a follow up of findings from previous audits.

Symology (costing system)

A review of the controls and processes associated with the Symology system.

Integrated Passenger Transport (IPT)

A review of the controls and processes associated with the delivery of public transport provision. The audit will include a review of safeguarding provisions for the transport of children and vulnerable adults.

Local Enterprise Partnership

A review of governance and management processes associated with the Local Enterprise Partnership. The specific areas will be agreed with directorate management.

Bedale, Aiskew and Leeming Bar bypass contract review

Ongoing review of the project management arrangements associated with this major scheme.

A174 Sandsend Road coast protection and slope stabilisation scheme contract review

Ongoing review of the project management arrangements associated with this major scheme.

4 CENTRAL SERVICES

Corporate Property Management – new contract arrangements

The current property contract ends in 2016. The allocation of time is to provide support to management in the re-design of the new contract (so that it is aligned to the 2020 North Yorkshire programme) and preparation for the tender exercise.

Asset Management

A review of the Council's policies, procedures and systems to deliver effective strategic asset management.

Business continuity and disaster recovery

A review of the Council's business continuity and disaster recovery arrangements. The audit will include a follow up of findings from previous audits.

Budgetary preparation and management

A review of budget preparation processes and the systems for ongoing budget monitoring and reporting. The audit will be aligned with the work on the 2020 Finance programme.

Main accounting

A review of the arrangements for managing and maintaining the financial ledger. The audit will be aligned with the work on the 2020 Finance programme and will include a review of:

- access and back up arrangements
- the integrity and timeliness of data
- the processing of journals and virements
- control and suspense account reconciliations
- year end processes.

New system interfaces

A review of the interfaces between the new financial ledger and the various feeder systems. The audit will be aligned with the work on the 2020 Finance programme.

Creditors

A review of the systems for ordering goods and services and processing creditor invoices. The audit will include a review of the new P2P processes and the roll-out of the system. In addition, the controls in place for making changes to creditor master file records will be examined.

Debtors and Income Management System

A review of the systems for raising debtor invoices and collecting income, credit control and debt recovery arrangements. The audit will be aligned with the work on the 2020 Finance programme.

Members' allowances

Provision to undertake audit compliance checks of a sample of claims for mileage and other allowable expenditure.

5 CHILDREN AND YOUNG PEOPLE'S SERVICES

Home to school transport

A review of the controls and processes associated with the delivery of home to school transport services. The audit will be undertaken in conjunction with the review of Integrated Passenger Transport (see above).

Special Educational Needs (SEN)

The Children and Families Act introduced new arrangements for assessing and supporting children with special educational needs and disabilities. This audit will review the controls and processes associated with SEN provision following these changes and the implementation of a new funding methodology. The audit will include a review of high needs funding arrangements.

Disabled Children's services

A review of controls and management arrangements covering the provision of services to disabled children. The audit will examine the changes to service provision resulting from the 2020 North Yorkshire programme.

Direct Payments

A review of the systems and procedures put in place by the County Council to monitor Direct Payment Agreements for Children and Young People. The scope of the audit will specifically include monitoring, review and follow up procedures.

School Improvement Partnerships

A review of the management and governance arrangements of the school improvement partnerships.

SmartSolutions

A review of the new service for the provision of traded services to schools and the associated management systems.

Schools Financial Value Standard (SFVS)

Provision to review the returns made by schools and to undertake any necessary follow up.

Schools themed audits

Provision for 4 themed audits. The specific areas will be agreed with directorate management although one will involve the submission of schools financial accounting statements. Visits will be made to a number of schools to review their practices in each of the chosen areas with the aim of producing good practice guidance. There will also be a small additional allowance for visits to individual schools with known issues.

Catering fresh produce contract

A review of the contract arrangements for the provision of fresh produce to schools and other establishments. The audit will include a review of supply chain risks.

Audit support and advice to schools

An allocation of time to respond to requests for advice and support from schools.

Training for schools

An allocation of time to deliver targeted training to schools.

6 COMPUTER AUDIT

The detailed IT audit plan will be developed in consultation with Audit North.

7 PROCUREMENT AND CONTRACT AUDIT

Membership of Procurement Operational Group

An allocation of time to attend monthly meetings of the Procurement Operational Group.

Support to the development of the Procurement Strategic Action Plan

To provide advice, guidance and challenge to the development and implementation of the procurement strategic action plan.

Specific procurement and contract management based reviews

An allocation of time to review individual contracts and related procurement activity.

8 NORTH YORKSHIRE PENSION FUND

Provision to review the controls and processes operated by the Pension Fund. The audits will include expenditure, income, investments and overall administration and governance of the Fund.

9 COUNTER FRAUD AND CORRUPTION

An allocation of time to support the provision of counter fraud services, including:

Data Matching

Provision to coordinate data submission, check data validity, assess referrals, and investigate potential frauds in relation to the National Fraud Initiative (NFI) and other local data matching exercises.

Fraud Awareness

Provision to deliver an overall programme of work to raise awareness of fraud issues. Activities include targeted fraud awareness training and organising counter fraud publicity (both internal and external).

Fraud Detection and Investigation

Provision to undertake investigations into suspected fraud, corruption or other wrongdoing. Examples of the types of investigation work that may be undertaken include internal, procurement and social care related fraud.

Other Counter Fraud Related Work

Provision to provide other counter fraud and corruption work including:

- review of council counter fraud arrangements and policies
- the provision of support and advice to directorates in relation to fraud issues
- reporting on outcomes from counter fraud work.

10 INFORMATION GOVERNANCE

An allocation of time to support the provision of Information Governance services, including:

- the co-ordination of responses to Data Protection and Freedom of Information requests
- monitoring compliance with DP and FoI requirements
- assisting in the development and implementation of the Information Governance policy framework

11 OTHER CHARGEABLE AUDIT WORK

Follow up

Provision to follow up previously agreed audit recommendations.

Corporate governance strategy

An allocation of time to support the development of the Council's corporate governance arrangements and the preparation of the Annual Governance Statement. The time allocation includes attendance at meetings of the Corporate Governance Officer Group.

Audit planning

A provision of time for the preparation of the Annual Audit Plan. Corporate Directors and service managers will be consulted as part of the planning process.

Audit support, advice and liaison

Provision to provide ongoing advice and support on the design, implementation and operation of appropriate controls and for the overall management of audit work in each directorate.

External audit liaison

Ongoing liaison with the external auditors to avoid duplication of effort and to maximise the overall benefit of the audit services provided to the County Council.

Audit Committee

A provision of time to prepare and present reports on internal audit and governance related work undertaken during the financial year. The reports will be presented in accordance with the agreed timetable of the Audit Committee. Time is also included to provide training to Members of the Audit Committee as and when required.

Contingency

Provision to undertake additional work in response to:

- specific requests from the Corporate Director – Strategic Services (the S151 Officer) or other chief officers

- new or previously unidentified risks which impact on Audit Plan priorities
- significant changes in legislation, systems or service delivery arrangements
- requests from customers to audit specific services, systems or activities usually as a result of weaknesses in controls or processes being identified by management
- urgent or otherwise unplanned work arising from investigations into information breaches or suspected frauds which identify potential control risks.

SUMMARY OF AUDIT DAYS 2012/13 - 2015/16

Audit Area	**2015/16**	**2014/15**	**2013/14**	**2012/13**
Corporate	180	290	245	260
Health and Adult Services (formerly Adult & Community Services)	200	130	165	270
Business & Environmental Services	90	85	145	160
Chief Executive's Group	---	---	---	47
Central Services	200	125	125	---
Children & Young People's Services	240	445	530	622
Computer Audit	100	100	70	70
Procurement and Contract Audit	90	85	65	90
Finance & Central services	---	---	---	97
Pension Fund	50	50	50	50
Counter Fraud & Corruption	310	330	340	350
Information Governance	700	745	540	540
Other Chargeable Audit Work	158	185	220	226
Non Audit Duties	---	10	15	18
TOTAL DAYS	**2318**	**2580**	**2510**	**2800**

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 MARCH 2015

INTERNAL AUDIT WORK FOR THE CENTRAL SERVICES DIRECTORATE

Report of the Head of Internal Audit

1.0 PURPOSE OF THE REPORT

1.1 To inform Members of the **internal audit work** performed during the year ended 31 January 2015 for the Central Services directorate and to give an opinion on the systems of internal control in respect of this area.

2.0 BACKGROUND

2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the Central Services Directorate, the Committee receives assurance through the work of internal audit (as provided by Veritau), as well as receiving a copy of the latest directorate risk register and the relevant Statement of Assurance (SoA).

2.2 This agenda item is considered in two parts. This first report considers the work carried out by Veritau and is presented by the Head of Internal Audit. The second part is presented by the Corporate Director and considers the risks relevant to the directorate and the actions being taken to manage those risks.

3.0 WORK DONE DURING THE YEAR ENDED 31 JANUARY 2015

3.1 Details of the work undertaken for the directorate and the outcomes of these audits are provided in **Appendix 1.**

3.2 Veritau has also been involved in carrying out a number of other assignments for the directorate. This work has included;

- Providing advice on various control issues;
- Providing advice and comment as part of the review of Financial Procedure Rules;
- Providing support to the Finance 2020 project including attendance at various project groups and providing advice and support to a variety of specific project leads;
- Meeting regularly with Central Services management and maintaining ongoing awareness and understanding of key risk areas.

3.3 As with previous audit reports, an overall opinion has been given for each of the specific systems or areas under review. The opinion given has been based on an assessment of the risks associated with any weaknesses in control identified. Where weaknesses are identified then remedial actions will be agreed with management. Each agreed action has been given a priority ranking. The opinions and priority rankings used by Veritau are detailed in **Appendix 2**. Some of the audits undertaken in the period focused on the review of specific risks as requested by management so did not have an audit opinion assigned to them.

3.4 It is important that agreed actions are formally followed up to ensure that they have been implemented. Veritau follow up all agreed actions on a regular basis, taking account of the timescales previously agreed with management for implementation. **On the basis of the follow up work undertaken during the year, the Head of Internal Audit is satisfied with the progress that has been made by management to implement previously agreed actions necessary to address identified control weaknesses.**

3.5 All internal audit work undertaken by Veritau is based on an Audit Risk Assessment. Areas that are assessed as well controlled or low risk are reviewed less often with audit work instead focused on the areas of highest risk. Veritau's auditors work closely with directorate senior managers to address any areas of concern.

4.0 AUDIT OPINION

4.1 Veritau performs its work in accordance with the Public Sector Internal Audit Standards (PSIAS). In connection with reporting, the relevant standard (2450) states that the chief audit executive (CAE)[1] should provide an annual report to the board[2]. The report should include:

(a) details of the scope of the work undertaken and the time period to which the opinion refers (together with disclosure of any restrictions in the scope of that work)

(b) a summary of the audit work from which the opinion is derived (including details of the reliance placed on the work of other assurance bodies)

(c) an opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (ie the control environment)

(d) disclosure of any qualifications to that opinion, together with the reasons for that qualification

(e) details of any issues which the CAE judges are of particular relevance to the preparation of the Annual Governance Statement

(f) a statement on conformance with the PSIAS and the results of the internal audit Quality Assurance and Improvement Programme.

4.2 The overall opinion of the Head of Internal Audit on the framework of governance, risk management and control operating in the Central Services directorate is that it provides **substantial assurance.** There are no qualifications to this opinion

[1] The PSIAS refers to the chief audit executive. This is taken to be the Head of Internal Audit.
[2] The PSIAS refers to the board. This is taken to be the Audit Committee.

and no reliance was placed on the work of other assurance bodies in reaching that opinion.

5.0 RECOMMENDATION

5.1 That Members consider the information provided in this report and determine whether they are satisfied that the internal control environment operating in the Central Services Directorate is both adequate and effective.

MAX THOMAS
Head of Internal Audit

Veritau Ltd
County Hall
Northallerton

16 February 2015

BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50 South Parade, Northallerton.

Report prepared by Ian Morton, Internal Audit Manager, Veritau and presented by Max Thomas, Head of Internal Audit.

Appendix 1

FINAL AUDIT REPORTS ISSUED IN THE YEAR ENDED 31 JANUARY 2015

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Creditors	Substantial Assurance	The audit reviewed key controls operating in the creditors system, particularly those controls that ensure: • duplicate payments are not made; • payments cards are used in accordance with policy; • bank account changes are not made without undertaking the necessary verification checks to ensure they are genuine; • new suppliers are not created on the system without undertaking the necessary verification checks to ensure they are genuine; • incorrect and/or unauthorised payments are not made; • payments are processed in a timely manner.	June 2014	Controls were generally effective although there were some areas requiring improvement. Although verification checks are being undertaken when processing bank account changes these checks are not properly evidenced in the majority of cases. A number of issues were identified in relation to the use of Barclaycards. These included applications not following the approved process, minimal review of infrequently used cards, and cards in the name of former employees which had not been cancelled, Controls to prevent duplicate payments are not sufficiently effective and there is a time consuming process in place to identify potential errors.	**One P2 and six P3 actions were agreed** **Responsible Officer** Assistant Chief Executive (Business Support) Additional evidence will be maintained to show that bank account changes have been verified. The authorisation of Barclaycards is to be reviewed and a 6 monthly review of card usage is to be introduced. The 'leavers' checklist is to be amended to include Barclaycards. Discussions are taking place with data providers to make the review of duplicate payments more effective. Changes relating to the new Oracle system should assist in reducing duplicate payments, particularly around increased requirements for purchase order numbers.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
B	Debtors	Substantial Assurance	The audit focused on credit control and the recovery of aged debts.	May 2014	Controls were generally effective although there were some areas requiring improvement, including: • where debts are in dispute those disputes are not being resolved promptly; • in some areas there are delays in the raising of invoices; • Oracle Financials is not able to report on the full extent of amendments processed to accounts for credits notes and/or debts written off.	**Eight P3 actions were agreed** **Responsible Officer** Assistant Director CASU Discussions held with service departments to highlight the importance of raising debts and resolving disputes promptly. The new Oracle system will include a new reporting tool that will enable the required reports to be produced.
C	Feeder Systems	Substantial Assurance	The audit reviewed the processes in place to ensure that financial data transferred electronically to Oracle Financials is accurate and complete. Testing was carried out on two accounts payable interfaces; CLAS and SPLS, five general ledger interfaces; Payroll, Pensions, Pension adjustments, YPO and BAFEY and the accounts receivable interface SISP. The following key controls were reviewed: • all feeder systems produce control totals which are checked against the relevant Oracle input totals; • data from the feeder system is	March 2014	Controls were generally effective although there were some areas requiring improvement. It was found that no formal reconciliation was being carried out between Softbox (CLAS) and Oracle Financials. Adjustments may also be made to the interface after the initial batch import. In addition, the present system of keeping documentation on file to prove interfaces have been authorised and carried out correctly is inconsistently applied. Some documentation is held as hard copy and on occasions could not be located.	**Two P2 and two P3 actions were agreed** **Responsible Officers** Systems Manager Senior Finance Manager A formal reconciliation of the CLAS interface will now be carried out. The system has been improved to ensure that all interfaces are now being recorded. A checklist will also be introduced for each interface to determine what documentation should be available on file and whether or not the records could be

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			authorised prior to transfer to Oracle; • rejection reports are produced and cleared promptly.			maintained electronically.
D	Capital Accounting	High Assurance	The audit reviewed the capital accounting system, including the controls for ensuring that assets are correctly recorded, valued and depreciated. The reconciliation of capital receipts to Oracle Financials was also examined.	March 2014	Effective controls were found to be in place.	**No actions identified.**
E	Local Welfare Assistance Scheme	Substantial Assurance	From April 2013, Community Care Grants were replaced by a new local assistance scheme funded by a fixed grant from the Department for Work and Pensions. The grant is currently approximately £793k pa. Applicants must be aged 16 years or over, resident in North Yorkshire and be in receipt of a means-tested benefit or have limited household income and capital. Applications are made through approved agents that regularly assist the most vulnerable. Applications should be supported by appropriate evidence and then submitted to NYCC's contractor, Charis, for checking and processing prior to payment.	January 2015	Controls were generally effective. Applications for assistance were supported by appropriate evidence, and Charis was checking the evidence provided prior to payment being made. However, the security features relating to some of the payment methods used could be improved. Charis is providing monthly reports to Central Services regarding the number and value of applications that have been received and approved. Charis is correctly undertaking a 5% management check of on-line applications processed. However, Charis, do not use a standard checklist for this purpose.	**Two P2 actions were agreed** **Responsible Officer** Project Officer, Central Services Discussions have been held with Charis in order to implement an appropriate checklist. The governance group will continue to review the arrangements around the provision of vouchers and explore alternative options for food and clothing needs.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			The audit examined the operation of the Scheme. In particular, testing was undertaken to ensure that: • awards are only paid to applicants that meet all the qualifying criteria; • adequate evidence is available to support applications made and only correct payments are made; • payments to successful applicants are made in the most appropriate manner.			
F	Members' Allowances	No opinion given	The audit reviewed a sample of mileage and subsistence claims submitted by Members to ensure that they were reasonable, properly completed and supported by receipts or other evidence. Where relevant, claims were also cross checked with the corresponding claims submitted to other councils or public bodies.	June 2014	The number of errors and discrepancies found continues to be small in relation to the overall number of claims submitted by Members. The level of detail supporting most travel and subsistence claims submitted via My View is however still insufficient to enable journeys to be properly verified and this therefore needs to be improved.	**Two P2 actions were agreed** **Responsible Officer** Corporate Director - Strategic Resources A Members' seminar was held on 14 May 2014 including a specific session dedicated to reminding Members of the importance of claiming travel and subsistence correctly. This session covered allowable expenses, approved duties where mileage could be claimed, duties where claims were not allowable and the potential pitfalls of making claims. The training also

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						covered Members who are entitled to claim from two or more public bodies and the importance of retaining VAT receipts.
G	Payments for Energy	Substantial Assurance	The Council uses energy to heat and light council buildings and schools and to illuminate street lighting. The different energy sources include electricity, gas, oil, coal and biomass fuels. Electricity and gas are however the main types of fuel used. Annual expenditure is approximately £5.3m for electricity (including £2m for street lighting) and £4.3m for gas. Both fuels are purchased through framework contracts organised by the Yorkshire Purchasing Organisation (YPO). The current electricity framework contract runs until 31 March 2015. The procurement process for the new contract has now been concluded and the supplier will remain NPower. The gas framework contract commenced in June 2013 and runs until March 2017. The supplier is Centrica. Ensuring the Council only pays for energy in line with these contracts and has arrangements in place to ensure value for money for	July 2014	The procurement of energy for use by the Council and its partners follows the government's recommended best practice. The processes used by the Energy Team indicate the Council is obtaining good value for money when purchasing gas and electricity, whilst mitigating the risk of increasing energy prices. The audit found that regular meter readings were not being supplied to the Energy Team by some council sites. The council also has a plan to reduce carbon emissions. This plan includes specific targets for certain services within the Council, some of which are not currently being achieved. Further work is therefore required to develop the required information systems and raise awareness of this issue.	**One P2 and one P3 action were agreed** **Responsible Officer** Sustainability Manager - Property & Procurement. The Council's ability to achieve targets in respect of the reduction in cost of energy use in respect of street lighting and business mileage will be considered as part of the Energy Team's review that will conclude at the end of 2014 Regularity of meter readings will need to be considered as part of the wider review of property management that is currently underway and particularly the provision of fully 'serviced property'. The Energy Team will continue to issue reminders.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			energy expenditure are key financial considerations. The audit examined the procurement process followed to arrange the framework contracts. The following key controls were also tested: • monitoring of energy usage and costs to ensure payments are in accordance with the contract rates; • the calculation and supply of estimates of annual usage so as to avoid unnecessary penalties; • the programme of measures designed to reduce the council's future energy usage.			
H	North Yorkshire Pension Fund – income	High assurance	The audit reviewed the key controls covering income to the Pension Fund. Testing was undertaken to ensure the correct contributions are received from member bodies and within the required timescales. The process for recovering the cost of any pension strain (arising from early retirement) was also examined.	April 2014	Effective controls were found to be in place although invoices to employers for the cost of any pension strain need to be raised more quickly.	**Two P3 actions were agreed** **Responsible Officer** Principal Accountant – North Yorkshire Pension Fund Invoices for pension strain costs will now be raised quarterly.
I	North Yorkshire Pension Fund - expenditure	High assurance	The audit reviewed the key controls covering Pension Fund expenditure. Testing was	April 2014	Effective controls were found to be in place.	**No actions identified.**

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			undertaken to ensure payments were correctly calculated, authorised and recorded.			
J	North Yorkshire Pension Fund – payments to pensioners	Limited assurance	The audit was requested by management in response to a number of reported issues with payments to pensioners. There are approximately 16,000 current pensioners and a further 26,000 deferred pensioners. The pension payroll service is provided by Employment Support Services (ESS). Instructions and changes are notified to ESS by the Pensions Administration team.	April 2014	At the time of the audit, pension overpayments were not being recovered effectively. In addition, amendment forms sent to ESS were not being processed in a timely manner. Since the audit performance has improved significantly.	**One P1 and one P2 action were agreed** **Responsible Officer** Head of Employment Support Shared Services A system has been put in place to ensure all notifications of pensioner deaths are acted upon promptly to minimise potential overpayments and prompt recovery action is taken for all overpayments identified.

Appendix 2

Audit Opinions and Priorities for Actions

Audit Opinions	
Audit work is based on sampling transactions to test the operation of systems. It cannot guarantee the elimination of fraud or error. Our opinion is based on the risks we identify at the time of the audit. Our overall audit opinion is based on 5 grades of opinion, as set out below.	
Opinion	**Assessment of internal control**
High Assurance	Overall, very good management of risk. An effective control environment appears to be in operation.
Substantial Assurance	Overall, good management of risk with few weaknesses identified. An effective control environment is in operation but there is scope for further improvement in the areas identified.
Reasonable Assurance (previously moderate)	Overall, satisfactory management of risk with a number of weaknesses identified. An acceptable control environment is in operation but there are a number of improvements that could be made.
Limited Assurance	Overall, poor management of risk with significant control weaknesses in key areas and major improvements required before an effective control environment will be in operation.
No Assurance	Overall, there is a fundamental failure in control and risks are not being effectively managed. A number of key areas require substantial improvement to protect the system from error and abuse.

Priorities for Actions	
Priority 1	A fundamental system weakness, which presents unacceptable risk to the system objectives and requires urgent attention by management.
Priority 2	A significant system weakness, whose impact or frequency presents risks to the system objectives, which needs to be addressed by management.
Priority 3	The system objectives are not exposed to significant risk, but the issue merits attention by management.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 MARCH 2015

INTERNAL CONTROL MATTERS FOR THE CENTRAL SERVICES DIRECTORATE

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

1.1 To provide an update to members of progress against the areas for improvement identified in the Central Services (CS) Directorate's Statement of Assurance.

1.2 To provide details of the latest Risk Register for the CS Directorate.

2.0 BACKGROUND

2.1 The Audit Committee is required to assess the quality and effectiveness of the corporate governance arrangements operating within the County Council. In relation to the CS Directorate, the Committee receives assurance through the work of internal audit (detailed in a separate report to the Committee), details of the Statement of Assurance provided by the Corporate Director, together with the Directorate Risk Register.

3.0 STATEMENT OF ASSURANCE

3.1 Management Board, the Chief Executive and each Corporate Director produce a Statement of Assurance (SoA) at the end of each financial year. In this statement the Corporate Director identifies those items that may give rise to internal control or performance risk issues for the Directorate in the coming financial year. These issues feed into the process to produce the Annual Governance Statement prepared for the County Council.

3.2 The SoA for the CS Directorate identified a number of areas for improvement during 2014/15 together with proposed actions. These areas were considered at the meeting of this Committee on 26 June 2014. The relevant part of the SoA is attached as **Appendix A** together with comments and updates on progress since that meeting.

4.0 DIRECTORATE RISK REGISTER

4.1 The Directorate Risk Register (DRR) is produced initially from a review of risks at Service Unit level, which are then aggregated via a sieving process to Directorate level. This end product similarly aggregates these Directorate level risks into the Corporate Risk Register.

4.2 The Risk Prioritisation System adopted to derive risk registers categorises risks as follows:

Category 1 and 2 are high risk (RED)

Category 3 and 4 are medium risk (AMBER)
Category 5 is low risk (GREEN)

The DRR represents the principal risks that may materially impact on the performance and financial outcomes of the Directorate.

4.3 The latest summary DRR is shown at **Appendix B** illustrating key risks with existing and additional actions to avoid or minimise them.

4.4 Central Services covers a range of front line and support services as follows -

Frontline Services
- Libraries
- Archives, Registration and Coroners support
- Customer Services Centre

Support Services
- The Chief Executive and Unit
- HR
- Legal and Democratic Services
- Business Support
- Finance
- Property
- Technology and Change
- Communications
- Policy and Partnerships

4.5 The Risk Register reflects the range of the above services but also includes many Corporate initiatives given the leadership role of Central Services on such issues as the 2020 North Yorkshire Programme and production of the Budget / MTFS. Unsurprisingly there is a high degree of correlation between the Directorate Risk Register and the Statement of Assurance.

4.6 There are a number of areas which are included on the risk register but not on the Statement of Assurance and are worthy of reference –

- Customer blueprint – staff within Central Services are provided some of the key leadership in driving forward the revised approach to customer as part of the 2020 North Yorkshire Programme. This inevitably involves great interaction with frontline services who have daily contact with the customer. Inevitably though there is a great deal of work required in order to develop locality approaches; modernise the website; deliver fit for purpose public access to buildings; get the right technology and systems to support ways of working; and probably most importantly ensuring that ways of working are aligned to customer needs.
- SmartSolutions – developing a more coherent approach to traded services within North Yorkshire and expanding to wider markets. Alongside this there is a wish to develop a more commercial and innovative culture across the councils workforce.

- Health and Safety – ensuring a sound approach to health and safety remains a high priority although it is risks being overlooked in times of significant change. A new head of Health and Safety has been appointed and is carrying out a review of various aspects of the service with a view to improving the current approach.

4.7 It is worth noting that "Ensuring Legality" has consistently featured on the Central Services Risk Register in recent years. This is not necessarily because of a perceived increase of risk, although there may well be grounds to believe that is the case in the current environment, but it is more a reflection of some of the core and important responsibilities which rest pre-dominantly within Central Services and through the role of the council's statutory officers.

5.0 RECOMMENDATION

5.1 That the Committee:

i) Note the position on the Central Services Directorate Statement of Assurance;

ii) Note the Directorate Risk Register for the Central Services Directorate; and

iii) Provide feedback and comments on the Statement of Assurance and Directorate Risk Register and any other related internal control issues.

GARY FIELDING
Corporate Director, Strategic Resources

5 March 2015

NORTH YORKSHIRE COUNTY COUNCIL

STATEMENT OF ASSURANCE 2013/14
BY CHIEF EXECUTIVE – CENTRAL SERVICES

The County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, all Members and senior officers of the County Council are responsible for putting in place proper risk management processes and internal controls to ensure the proper stewardship of the resources at its disposal.

As Chief Executive and member of the Central Services Management Team, I have corporate responsibility for maintaining a system of sound internal controls and risk management processes within the County Council and service management responsibility for maintaining a system of sound internal controls and risk management processes within Central Services Directorate that support the achievement of both Corporate and the Central Services objectives. I share these responsibilities with my colleagues on the Central Services Management Team, each of whom leads in their areas of particular responsibility.

The system of internal controls is based on an ongoing process designed to identify the principal risks to the achievement of these objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The system of internal controls is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

As Chief Executive, I have responsibility for reviewing the effectiveness of the system of internal control and risk management processes in Central Services Directorate. My review of the effectiveness of the system of internal controls has taken into account the following:-

- adequacy and effectiveness of management review processes
- outcomes from the formal risk assessment and evaluation process (Central Services Risk Register)
- relevant self-assessments of key service areas within Central Services
- relevant internal audit reports and results of follow ups regarding implementation of recommendations
- outcomes from reviews of services by other bodies including Inspectorates, external auditors etc
- the framework of controls that operate in relation to individual partnerships where some aspects of the necessary controls are the responsibility of the partner to operate / apply

I confirm that Central Services Directorate have a full set of service continuity plans and that they will continue to be refreshed as and when necessary and at least on an annual basis.

I am satisfied that a sound system of internal control has been in place throughout the 2012/13 financial year and is on-going in Central Services. Nevertheless, during the year my review work has identified some areas for improvement and these are set out in the *attached schedule*. I propose to take steps to address the matters so identified which should enhance the system of internal controls. I will be monitoring to ensure their effective implementation and operation.

I also understand that this Statement of Assurance will be relied upon by those Members and Officers signing the Annual Governance Statement 2013/14 (the "Document") and by the Audit Committee reporting on the Document.

I therefore confirm that I am not aware of any material statement in, or omission from, the Document which would make the Document misleading. In respect of Central Services for which I am responsible I can confirm that I have made due and careful inquiry and that the statements, in particular those contained in Section 3 of the Document, fairly represent the key elements of the internal control environment within Central Services. I also confirm that there are no matters omitted from Section 7 of the Document which, in my view, merited inclusion.

The assurances given above are all based upon the information that has been made available to me.

Signed:

Chief Executive (Central Services)

Date :

<table>
<tr><th colspan="4">AREAS FOR IMPROVEMENT IDENTIFIED
CENTRAL SERVICES DIRECTORATE</th></tr>
<tr><th colspan="2">Action taken to date / planned 2014/15</th><th>Action proposed</th><th>Latest Position</th></tr>
<tr><td>A</td><td>Medium Term Financial Strategy

A Medium Term Financial Strategy was approved up to including 2015/16 and a further long term projection with high level outline savings was also approved taking the Council up to 2018/19. There is a need to ensure that –

a) The savings requirement in 2014/15 and any other spending pressures are accommodated with the 2014/15 budget.
b) Detailed plans are firmed up to deliver the savings required as part of the 2020 North Yorkshire Programme for 2015/16 and beyond.
c) Areas of investment are identified and provided for to reflect priorities of the Council and deliver of the 2020 North Yorkshire Programme.</td><td>a) On-going budget monitoring to ensure that the budget position for 2014/15 is on track, particularly those savings due to be delivered in year.
b) Further development and refinement of savings proposals as part of the 2020 North Yorkshire Programme to include firmer idea of value and timing of savings to be realised.
c) 2020 North Yorkshire Programme Governance arrangements to be embedded and routinely reviewed and, where necessary, changes made. This to include Management Board as Programme Board, reporting to the Executive, Overview and Scrutiny Committees and Members en-masse.
d) Re-calibration of the MTFS and longer term financial projection in the light of the further work from the 2020 North Yorkshire Programme and considering the final Local Government Settlement for 2015/16.
e) On-going review of MTFS / longer term</td><td>a) Q budget monitoring regime in place and identified that savings are approximately £4.4m in advance.
b) Budget as approved by County Council on 18 February included recalibration of savings plan with reduced proposals of £3,260k. This will continue to be reviewed on an on-going basis.
c) In place. Regular Member’s Seminars on 2020 North Yorkshire and Overview and Scrutiny Committees etc. as outlined in paras 11.2 to 11.5 of the budget report.
d) Done as part of the 2015/16 budget.
e) Ditto</td></tr>
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<tr><td></td><td></td><td>financial projection in light of additional obligations and information. For example, incorporation of latest assessments on the impact of the Care Bill or developments relating to the Better Care Fund. (NB – no further spending review information is anticipated before the General Election in May 2015).</td><td></td></tr>
<tr><td>B</td><td>2020 North Yorkshire Programme
• Central Services act as a hub for the 2020 North Yorkshire Programme given the range of functions provided. It is recognised that for the Programme to be successful there needs to be strong programme management and governance alongside the necessary skills and capacity across the organisation.</td><td>a) Programme Management to be provided by Technology and Change within Central Services. This role to ensure coherency across the organisation.
b) Identification of key resources required in order to underpin the 2020 North Yorkshire Programme. This includes a range of functions but significantly Technology, Change and Project Management, HR, Legal, Communications and Procurement support.
c) Ensure that all Members of the County Council are appropriately engaged in the 2020 North Yorkshire Programme through a range of communications</td><td>a) In place and greater coherency being brought to the overall Programme at each stage. This inevitably raises issues that need further consideration.
b) Support resources identified as part of the Programme brief / outline business case / final business case approach. Such information being used to map interdependencies etc. so that relative prioritisation can take place.

In addition, resources were identified and allocated as part of the 2014/15 budget monitoring approach (see agenda for Executive on 19 August 2014).</td></tr>
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AREAS FOR IMPROVEMENT IDENTIFIED CENTRAL SERVICES DIRECTORATE			
Action taken to date / planned 2014/15		**Action proposed**	**Latest Position**
		including Members Seminar, Overview and Scrutiny Committees, regular updates and support to individual Members on Community Leadership. d) Lead development and implementation of the Stronger Communities initiatives and delivery of outcomes. This will involve working with partners across all sectors.	c) Paragraphs 11.2 to 11.5 of the budget report to County Council on 18 February refer. d) Full team in place now for Stronger Communities. This involved Team Leader and 7 co-ordinators based loosely around districts. A budget of £1.5m is in place on a recurring basis to fund the team and to provide for recurring commitments. In addition £3m is available for pump priming grants to help local communities respond. Work is being done in conjunction with local communities and this inevitably takes in a wider range of partners. This is perhaps most developed with Selby as a result of the Better Together initiative.
C	**Property** • As part of the 2020 North Yorkshire Programme the Council is committed to rationalising its property across the County. The current contract with Jacobs UK also comes to an end on the 31 March 2016 so the preparation	a) Update on strategy for property rationalisation with clear linkages to approaches on flexible working and deployment of technology. b) Distillation of services reviews across	a – c) Further work has been carried out as the thinking, particularly around service reviews, matures with the 2020 North Yorkshire Programme. At the early stages it has not been possible to bring forward a definitive master plan

AREAS FOR IMPROVEMENT IDENTIFIED CENTRAL SERVICES DIRECTORATE			
Action taken to date / planned 2014/15		**Action proposed**	**Latest Position**
	for the new contract will be a key activity within Central Services in 2014/15.	the Council in order to determine the property needs of the Council for the remainder of the decade. This information then to be used to set out the property needs of the Council. c) Review of the current arrangements for property (for example budget arrangements and responsibilities for services occupying corporate buildings). d) Determination of how the Council will seek to deliver the property services with effect from 1 April 2016. This will involve consideration of what services to contract for; what services to retain in-house; and what services to bring back in-house (if any). This approach will require appropriate approvals through 2014/15.	for property but information has been collated to ensure that the key strands are developed including – • Role and responsibility for Corporate Property function and that of service as tenant. • How best to budget for property in order to facilitate optimisation. • Identify future requirements for front line operational buildings / service delivery • Identify Council requirements for office based need. • Align approach with changes to ways of working which also includes technology and the councils changing approach to customer. An outline plan is being considered by 2020 North Yorkshire Programme Board in March and the Corporate and Partnerships Overview and Scrutiny Committee are also engaging in this piece of work. Further detail will therefore be available later in the year. d) The current contract with Jacobs ends on the 31 March 2016. Procurement

AREAS FOR IMPROVEMENT IDENTIFIED CENTRAL SERVICES DIRECTORATE			
Action taken to date / planned 2014/15		**Action proposed**	**Latest Position**
			has been planned for some time now and an OJEU advert was put out for a revised contract to cover highways design, building design and estates management early in January 2015. The deadline for submission of PQQs has now expired and evaluation is taking place. There has been strong engagement from the market thus far and there has been strong overall support for the revised arrangements which the County Council has put forward (after engaging with the market). The new approach sees a number of functions brought in-house in order to ensure that the council can operate as a more "intelligent" client. This means carrying out more feasibility work on property in order to ensure that value for money considerations are maximised.
D	**Superfast North Yorkshire** • The current contract with BT should result in circa 90% of North Yorkshire having Superfast Broadband coverage for the end of 2014. The challenge to	a) Pursuit of further external funding from Government, European Union etc. and identification of any matched funding	The contract with BT has continued to progress and the Council committed to £3.1m in order to extend the roll out of

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<tr><td></td><td>the Council remains the 10% of the County where this is unlikely to be the case and further work is therefore required to reduce that gap.</td><td>required from the Council.
b) Review of lessons from implementation of the BT contract and any subsequent technology options to determine the most effective way forward.
c) On-going business engagement work, particularly with the LEP to support delivery of grant funded outcomes from ERDF and wider exploitation of broadband from local businesses.</td><td>Superfast Broadband (phase 2). The Executive considered further opportunity to match fund Government in order to increase the percent of coverage. However, the decision was taken to defer that opportunity given limitations in technology and the hire unit cost. Emerging technologies are being assessed and it is likely that further opportunity will therefore arise sometime in the near future. For that reason, the County Council has earmarked £4m which it is hoped will be match funded from Government.

Business engagement continues and it is an essential requirement of European Funding. At this stage progress is good and on track.</td></tr>
<tr><td>E</td><td>Information Governance
• Information Governance has been an area of significant activity for the Council over the last 2 years. However, with increased use of information the risk remains high and the potential costs of poor Information Governance equally remains high. There is therefore a need to ensure on-going</td><td>a) On-going review of the effectiveness of Information Governance from the Corporate Information Governance Group (CIGG) and the network of Directorate Champions.
b) Implementation of an action plan in order to improve the Council's</td><td>a) Changes have been made to CIGG and the way in which it works. General consensus is that there is a more effective working relationship although this continues to be reviewed and amended as appropriate.
b) The importance of Information</td></tr>
</table>

AREAS FOR IMPROVEMENT IDENTIFIED CENTRAL SERVICES DIRECTORATE			
Action taken to date / planned 2014/15		**Action proposed**	**Latest Position**
	vigilance.	performance on Information Governance and to mitigate some of the risks. This plan is constantly reviewed and key components include – – Further Information Governance sweeps by Veritau with disciplinary actions being taken against staff where appropriate. – A re-fresh of the training requirements for staff (which has been a mandatory course). – Practical arrangements to help staff ensure data is secure such as easier access to lockable cabinets etc. – Implementation of more secure systems and ways of working for transferring data securely between organisations. – On-going communications to staff on the importance of good Information Governance, including messages from the Chief Executive.	Governance is such that actions are amended on an on-going basis. The following however updates against those actions identified. – As reported by the Head of Internal Audit, further information sweeps have taken place and have provided valuable information. Disciplinary proceedings have been taken against staff where appropriate. – In progress and update to be taken to Management Board with suggested outline for who should do what training and the extent to which it is made compulsory. – In place. Central resource made available through business support to facilitate. – Egress in place in order to ensure more secure information transfer. Work progressing well in relation to data sharing with other partners with NYCC leading. – Regular updates to staff on the back of information sweeps and reminders that staff are being disciplined where appropriate. This will remain an on-going "campaign".

AREAS FOR IMPROVEMENT IDENTIFIED CENTRAL SERVICES DIRECTORATE			
Action taken to date / planned 2014/15		**Action proposed**	**Latest Position**
F	**Better Together** • The Better Together initiative between the County Council and Selby District Council represents a real opportunity to improve outcomes for Selby residents and to realise efficiency savings for both Councils. It is recognised, however, that significant and often complex work needs to be undertaken in order to deliver many of the benefits.	a) On-going oversight of the Better Together Programme by the Steering Group which involves the Chief Executives of the County Council and Selby District Council. b) On-going discussions at various joint council project teams which are charged with producing action plans in order to deliver improvements in discrete areas. c) Incorporation and integration of the Better Together Programme with the 2020 North Yorkshire Programme in order to ensure coherency and strategic alignment.	a) In place b) Discreet area of progress include – Financial services – Exploratory discussions relating to property (including highways depot) – Exploratory discussions around sharing of ICT – Web development – Customer Relationship Management System – Registration service delivered from Civic Centre. c) Better Together Programme now considered as a separate workstream within 2020 North Yorkshire in order to give key visibility. The approach also to be used as a platform for greater collaboration across North Yorkshire and partners therein.
G	**Central Services Savings** In additional to supporting the 2020 North Yorkshire Programme, Central Services also has to deliver its own savings	a) Refinement of savings proposals with firmer values and timelines b) Production of action plans to deliver	On track. A range of measures are in place – Cashable benefits log for Central

AREAS FOR IMPROVEMENT IDENTIFIED CENTRAL SERVICES DIRECTORATE			
Action taken to date / planned 2014/15		**Action proposed**	**Latest Position**
	requirements.	savings and monitoring there of c) Regular updates and accountability to 2020 North Yorkshire Programme Board and related governance.	Services. – Central Services Management Team meets in Programme Board mode and reviews progress. – Updates provided to 2020 North Yorkshire Programme Board on Central Services progress. The challenge of delivering savings whilst enabling others to make savings is a permanent live issue. This is leading to the need to prioritise support accordingly.

Central Services Directorate

Risk Register: **month 6 (Jan 2015) – summary**
Report Date: 3rd February 2015 (pw)

Identity			Person		Classification														Fallback Plan	
					Pre						RR		Post							
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat	FBPlan	Action Manager
◀▶	15/161 - Information Governance	Ineffective information governance arrangements lead to unauthorised disclosure of personal and sensitive data, poor quality or delayed responses to FoI requests, and inability to locate key data upon which the Council relies resulting in loss of reputation, poor decision making, fine, etc	Chief Exec	CD SR	H	M	M	M	H	1	8	31/03/2015	M	M	M	M	H	2	Y	CD SR
◀▶	15/179 - Library Service Re-configuration as part of 2020 Stronger Communities Programme	Failure to successfully reconfigure the service by building on existing models of community ownership &/or co-production so that Library Services will be delivered through a community hub infrastructure , in multi purpose buildings where customers can access a range of services, failure would result in legal challenge, impact on customer service in this and other areas, missed opportunities to strengthen communities and unmet savings targets	Chief Exec	CSD AD LC&CS	M	L	M	H	H	2	8	7/02/2015	L	L	L	M	H	3	Y	CSD ACE Selby
◀▶	15/11 - 2020 North Yorkshire Change Programme	Failure to adequately develop, plan for and commence implementation of new council ways of working resulting in inability to meet financial savings requirements, sub-optimal decision making and poorer quality of services.	Chief Exec	CSD SR AD T&C	M	H	H	H	H	2	12	31/03/2015	L	H	H	H	H	3	Y	All Mgt Board
◀▶	15/151 - Superfast North Yorkshire (SFNY)	Failure to maximise the opportunity to provide high quality broadband services to North Yorkshire businesses and residents resulting in significant lost opportunities, community dissatisfaction, sub optimal procurement, criticism	Chief Exec	CEX NYnet	M	M	H	M	H	2	8	31/03/2015	L	M	H	M	M	3	Y	CEX NYnet
◀▶	15/166 - Organisational Performance Management	Council does not operate a true performance management framework leading to misalignment of activities and services with Council mission and objectives, poorer service delivery, public dissatisfaction, criticism, suboptimal working and lost opportunities and reduced ability to meet savings requirements	Chief Exec	CD SR	M	M	M	H	M	2	4	31/03/2015	L	M	M	H	M	3	Y	CD SR

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North Yorkshire County Council

Central Services Directorate

Risk Register: **month 6 (Jan 2015) – summary**
Report Date: 3rd February 2015 (pw)

Identity			Person		Classification														Fallback Plan	
					Pre						RR		Post							
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat	FBPlan	Action Manager
◀▶	15/186 - Stronger Communities	Failure to develop and implement greater community capacity to provide sustainable local support and services, within the context of reduced government funding, resulting in further reduced services in the community, missed opportunities relating to community libraries, universal youth provision, community transport and prevention services for older and vulnerable adults	Chief Exec	CSD AD PP	M	L	H	M	M	**2**	5	30/04/2015	L	L	H	M	M	**3**	Y	CSD PP HoSC
◀▶	15/162 - Capacity and Skills	A lack of capacity and skills within Central Services leads to a significant decline in service quality &/or insufficient progress in carrying out required developments.	Chief Exec	CSD Mgt Team	H	M	L	M	L	**2**	5	30/06/2015	M	M	L	M	L	**4**	Y	CSD Mgt Team
◀▶	15/180 - Customer Blueprint	Failure to develop and implement the Customer Blueprint and reconfigure the Customer Services Centre such that our approach meets the needs and demands of our customers and supports the council's necessary service redesigns and budget reductions	Chief Exec	CSD ACE Selby	M	M	M	H	M	**2**	6	28/02/2015	M	M	M	M	M	**4**	Y	CSD ACE Selby
◀▶	15/185 - SmartSolutions	Failure to successfully implement the SmartSolutions approach resulting in reduced financial benefits for Traded Services, poor customer feedback, missed opportunities and failure to adequately embed innovation within the Council workforce.	CD SR	AD SR (CYPS) & Prop	H	L	M	M	M	**2**	9	27/02/2015	M	L	M	M	M	**4**	Y	AD SR (CYPS) & Prop
◀▶	15/178 - Better Together	Failure to implement effective arrangements between NYCC and Selby District Council to ensure the most effective use of joint resources of the two organisations in providing services to the shared client base results in lost opportunities to improve the customers' experience and realise savings.	Chief Exec	CSD ACE Selby Chief Exec	M	L	M	M	H	**2**	7	30/06/2015	L	L	M	M	M	**5**	Y	CSD Mgt Team

Central Services Directorate

Risk Register: **month 6 (Jan 2015) – summary**
Report Date: 3rd February 2015 (pw)

Identity			Person		Classification														Fallback Plan	
					Pre						RR		Post							
Change	Risk Title	Risk Description	Risk Owner	Risk Manager	Prob	Obj	Fin	Serv	Rep	Cat	RRs	Next Action	Prob	Obj	Fin	Serv	Rep	Cat	FBPlan	Action Manager
◀▶	15/177 - Property Service	Failure to operate an effective and efficient property service including carrying out the key tasks relating to Post 2016 arrangements and 2020 North Yorkshire property rationalisation leading to missed opportunities, less efficient management, maintenance and construction of property, criticism and lost financial opportunities.	CD SR	AD SR (CYPS) & Prop	L	M	M	M	H	**3**	8	31/03/2015	L	M	M	M	H	**3**	Y	AD SR (CYPS) & Prop
◀▶	15/183 - Health & Safety	Major Corporate Health and Safety failure resulting in injuries, claims, reputational and service delivery impact and possible prosecution	Chief Exec	CD SR	L	M	M	M	H	**3**	6	31/03/2015	L	M	M	M	H	**3**	Y	CSD SR HoHSRM
◀▶	15/29 - Ensuring Legality	Failing to ensure that the Council acts lawfully in its operations resulting in challenge, non delivery of decisions, financial implications and loss of reputation particularly given service and statutory obligations	Chief Exec	CSD ACE LDS	M	L	M	M	M	**4**	7	31/08/2015	M	L	M	M	M	**4**	Y	CSD ACE LDS
◀▶	15/184 - Central Services Savings Plan	Failure to deliver the Central Services savings plan for the duration of the Change Programme (up to 2019) resulting in inability to meet the budget, rationalise support services and enable the change programme	Chief Exec	CSD Mgt Team	L	M	M	M	M	**5**	4	31/08/2015	L	M	M	M	M	**5**	Y	Chief Exec

Key	
▲	Risk Ranking has worsened since last review.
▼	Risk Ranking has improved since last review
◀▶	Risk Ranking is same as last review
- new -	New or significantly altered risk

ITEM 8

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 MARCH 2015

COUNTER FRAUD AND ASSOCIATED MATTERS

Report of the Head of Internal Audit

Discussion of Appendices 3 and 4 to this report are likely to include exempt information of the description in paragraph 7 of Part 1 of Schedule 12A to the Local Government Act 1972 as amended by the Local Government [Access to Information] [variation] Order 2006

1.0 PURPOSE OF THE REPORT

1.1 To report on the number and type of investigations undertaken by Veritau Limited during 2014/15 to date.

1.2 To consider proposed changes to the County Council's Fraud Strategy and a new fraud Prosecution and Loss Recovery Policy prior to approval.

1.3 To consider the Annual Fraud and Loss Risk Assessment for the County Council.

2.0 BACKGROUND

2.1 In the current economic climate, all organisations are at an increased risk of fraud and corruption. In its final annual fraud report '*Protecting the Public Purse'*, published in October 2014, the Audit Commission estimated that fraud costs local government £2.1 billion, but this figure was probably an underestimate. The main types of local government fraud continue to be housing tenancy and council tax, procurement, social care and 'internal' fraud.

2.2 Changes in the way in which public services are being delivered mean that the risk profile for fraud is also changing. The increased arm's length delivery of services by private sector, voluntary or not-for-profit organisations as well as greater use of personal budgets for social care mean that fraud is more difficult to prevent and identify. Reduced resources also mean that local authorities have less capacity to investigate suspected fraud or undertake proactive counter fraud activities. In addition, local authorities are now responsible for managing individual local council tax support schemes in place of council tax benefits and are entitled to retain half of locally raised business rate revenues. There is therefore a continuing financial incentive for councils to work together to minimise overall fraud losses.

2.3 The Audit Commission reported that the value of detected non-benefit fraud in local government increased by 2% in 2013/14, to £59m. The notable changes in the past 5 years include the number of right to buy fraud cases which have increased five-fold, social care fraud cases which have more than trebled and insurance fraud cases which have similarly trebled. Increases have also been seen in housing tenancy, procurement, blue badge and maintained school fraud cases. Council tax discounts however remain the area where the most fraud is detected with nearly 50,000 cases nationally in 2013/14, equivalent to a potential loss of £16.9m in funding.

2.4 In July 2014, CIPFA established a new ‘centre of excellence’ to combat fraud. The new centre is headed by Rachel Tiffen, who was previously deputy director of the now disbanded National Fraud Authority. The centre will work closely with the Department for Communities and Local Government (DCLG), the Cabinet Office, the National Crime Agency (NCA) and other agencies to develop policies, tools and guidance to help public sector organisations to identify and address fraud. One of its first outputs has been a Code of Practice on managing the risks of fraud and corruption. The Code highlights five key principles which public sector organisations should consider:

- Acknowledge responsibility

  Corporate leaders should acknowledge their responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation;

- Identify risks

  Fraud risks should be identified in order to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users;

- Develop a strategy

  Each organisation should adopt a counter fraud strategy setting out its approach to managing its risks and defining responsibilities for action;

- Provide resources

  Each organisation should make available appropriate resources to support the counter fraud strategy;

- Take action

  Each organisation should put in place the policies and procedures to support the counter fraud and corruption strategy and take action to prevent, detect and investigate fraud.

2.5 Whilst the County Council has a good record in maintaining standards of probity and propriety, it is essential that its arrangements for reducing the risk of loss from fraud and corruption remain effective. As a consequence the Counter Fraud Strategy and the associated policies are kept under review, and updated as required.

2.6 In addition, the County Council in partnership with the City of York Council, Ryedale District Council, Richmondshire District Council, Hambleton District Council, and Selby District Council has recently successfully bid for additional government funding to combat fraud. The funding has been made available by the Department for Communities and Local Government (DCLG) and is intended to improve capacity in this area. The total allocation is £170k to fund the investigation of non-benefit fraud over the next two years. The additional money will be used to investigate social care, council tax/NNDR and procurement related fraud across the partner councils. Data matching across all the partner councils will be used to identify potential fraud cases requiring further investigation.

3.0 THE COUNTER FRAUD POLICY FRAMEWORK

Background

3.1 The counter fraud policy framework includes the Counter Fraud Strategy, the Whistleblowing Policies and the Anti Money Laundering Policy.

3.2 The Counter Fraud Strategy has been reviewed to ensure that it reflects the best practice guidance contained in the new Code of Practice. A copy of the Strategy with the proposed amendments shown as tracked changes is attached as **appendix 1**. In addition, a new Fraud Prosecution and Loss Recovery policy has been prepared. The policy is intended to clarify the circumstances when the County Council might wish to instigate a prosecution in its own right and the associated decision making process. The policy also sets out the measures that can be taken to potentially recover losses caused by fraud. The draft policy is attached as **appendix 2**.

3.3 The Whistle blowing Policy was updated in March 2014 to reflect recent legislative changes. The Anti Money Laundering Policy has also been recently updated. No further amendments are therefore considered necessary to either policy.

4.0 INVESTIGATIONS UNDERTAKEN IN 2014/15

4.1 Concerns and allegations of possible fraudulent or corrupt working practices are raised with Veritau via the County Council's whistleblowing arrangements or directly by management and staff. Not all investigations result in sufficient evidence being obtained to support the allegations whilst other concerns prove to be unfounded. However, where evidence is found of fraud or wrongdoing, the following factors are often relevant:

- the need for managers and staff to remain vigilant and to question unusual transactions or patterns of behaviour;
- the need for staff to protect physical and information assets;
- the importance of sharing information about possible fraud risks with other councils and/or with other agencies;
- the importance of pro-active counter fraud measures to help prevent and detect fraud;
- the need for managers and staff to report concerns to Veritau at the earliest opportunity.

4.2 **Appendix 3** provides a summary of the number and type of investigations undertaken by Veritau during 2014/15 to date. Details of the cases investigated in the previous three years are provided for comparison purposes.

5.0 FRAUD AND LOSS RISK ASSESSMENT

5.1 Internal Audit completes an annual Fraud and Loss Risk Assessment, designed to identify the activities and areas within the County Council, which present the greatest risk of loss. This Risk Assessment is informed by the history of events and losses suffered by the County Council together with the results of recent investigations into suspected fraud, corruption and other irregularities. National issues and trends are also taken into account. The results of the Assessment are used by:

- management to develop or strengthen existing fraud prevention and detection measures;
- Veritau to further revise the Counter Fraud Policy Framework;
- Veritau to focus future audit and counter fraud work (as set out in the Annual Audit Plan).

5.2 **Appendix 4** provides the outcomes of the 2014/15 Annual Fraud and Loss Risk Assessment exercise.

6.0 RECOMMENDATIONS

Members are asked to:

6.1 note the investigations carried out by Veritau in 2014/15 to date, and the outcome of the annual Fraud and Loss Risk Assessment.

6.2 approve the proposed changes to the County Council's Counter Fraud Strategy.

6.3 approve the new Fraud Prosecution and Loss Recovery Policy.

M A THOMAS
Head of Internal Audit

BACKGROUND DOCUMENTS

Relevant audit reports kept by Veritau Ltd at 50, South Parade

Report prepared and presented by Max Thomas, Head of Internal Audit.

County Hall
Northallerton

11 February 2015

Appendix 1

NORTH YORKSHIRE COUNTY COUNCIL

COUNTER FRAUD STRATEGY

February 2015~~2~~

Index

Section	Contents
1.0	Introduction
2.0	Policy Framework for preventing Fraud
3.0	Key officers and Corporate Groups
4.0	Culture
5.0	Prevention
6.0	Detection and Investigation
7.0	Recovery of Losses Incurred
8.0	Fraud Awareness and Training
9.0	Conclusions
10.0	Review of Strategy

1.0 **INTRODUCTION**

1.1 The County Council is committed to maintaining an effective Counter Fraud Strategy which is designed to minimise the risk of fraud and corruption by adopting measures which:-

- encourage fraud prevention
- pro-actively detect fraud, and
- enable cases to be investigated promptly and thoroughly.

1.2 Any fraud committed against the County Council effectively constitutes a theft of taxpayers' money. It is unlawful and deprives the County Council of resources which should be available to provide services to the public. Fraud may also cause reputational damage to the organisation, potentially resulting in a loss of confidence amongst the public or stakeholders, and an adverse effect on staff morale. By putting in place effective measures to counter the risk of fraud and corruption the County Council can reduce losses which impact on service delivery. The County Council therefore expects the highest standard of probity, propriety and conduct from Members, employees and contractors. This includes requiring those concerned to act lawfully and to comply at all times with the County Council's policies, regulations and procedures.

1.3 This Counter Fraud Strategy follows the principles contained in the Code of Practice on Managing the Risk of Fraud and Corruption published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code consists of the following five key principles:

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

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1.4 The Strategy is based on a series of interrelated policies and procedures designed to frustrate any attempted fraudulent or corrupt act. These policies and procedures cover:-

- the Counter Fraud culture of the County Council
- prevention arrangements and controls
- fraud awareness and training
- the detection and investigation of suspected fraud and corruption

- the prosecution of individuals suspected of perpetrating fraud and the recovery of losses

1.5~~4~~ The County Council is subject to a high degree of external scrutiny of its affairs by a variety of bodies including:-

- Local Government Ombudsman
- The Care Quality Commission
- ~~Audit Commission /~~ The appointed e~~E~~xternal a~~A~~uditor
- Ofsted
- the public/service users (through the County Council's Complaints Procedures)
- Central Government Departments
- HM Revenue and Customs

1.6~~5~~ The Corporate Director ~~-~~– Strategic Resources~~Finance and Central Services~~ is the Section 151 officer for the County Council as defined by the Local Government Act 1972. He has an overriding and statutory responsibility to ensure that there are adequate and effective financial procedures in place. He is also responsible for ensuring that the County Council has an effective internal audit function.

1.7~~6~~ For the purpose of this Strategy the term “fraud” is used broadly to include (but is not limited to):

- any acts which would fall under the definition in the Fraud Act 2006
- anything which would be deemed fraudulent in accordance with the generally held view of fraud as causing loss or making a gain at the expense of someone else by deception and dishonest means
- any act of bribery or corruption including specific offences covered by the Bribery Act 2010
- acts of theft
- any other irregularity which is detrimental to the County Council whether financial or otherwise, or by which someone gains a benefit to which they are not entitled.

1.8~~7~~ Whilst the County Council has a good record in preventing fraud and corruption, cases do occur which require further investigation. In recent years such cases have included:

- The falsification of financial records by an employee, in order to divert funding to a fraudulent bank account.
- Theft from County Council service users committed by staff employed by external organisations.

- The theft of money belonging to service users whilst they are attending or resident in County Council establishments.
- The theft of cash and/or equipment from County Council establishments.
- An employee not working their contracted hours.
- An employee who benefitted financially by undertaking private work gained through their employment with the County Council.
- Fraudulent invoices submitted to the County Council for payment.
- An attempt to change creditor bank account details, in order to divert payments to a fraudulent bank account.
- ~~Misuse of the County Council's e-mail and internet facilities~~.

2.0 POLICY FRAMEWORK FOR PREVENTING FRAUD

2.1 This document sets out the County Council's strategic objectives in relation to combating fraud and corruption, and its overall arrangements for preventing and detecting fraud. It forms part of the County Council's overall counter-fraud P~~p~~olicy F~~f~~ramework and should be read in conjunction with the Constitution, the Contract, Financial and Property Procedure Rules, disciplinary policies, Standards of Conduct Procedure for Employees and other related policies and procedures. The Terms of Reference for the Audit Committee specifically include reference to reviewing the effectiveness of anti-fraud and corruption arrangements throughout the County Council. To support the Audit Committee in this role the Corporate Director – Strategic Resources~~Finance and Central Services~~ reports on the Policy Framework and level of fraud detected within the County Council each year. This Committee, within its terms of reference, will approve any changes to the counter-fraud P~~p~~olicy f~~F~~ramework.

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2.2 The key documents comprising the counter-fraud Policy Framework are:-

(a) **Counter Fraud Strategy**

This document sets out the Strategy which the County Council has adopted to prevent loss due to fraud and corruption. The County Council will be both pro-active in detecting suspected fraud and corruption and will deal effectively with all identified instances of loss. The aim of the Strategy is to align responsibilities and actions with identified fraud risks.

(b) **Whistleblowing Policy**

Whistleblowing remains the most common way that frauds are detected in large organisations such as the County Council. The policy explains how members, employees, contractors and agency staff can raise concerns about suspected fraud and other malpractice in a confidential manner. ~~In 2006/07 this Policy was extended to allow contractors (and their staff) to raise allegations in a confidential manner.~~

(c) **Anti-Money Laundering Policy**

This Policy defines the responsibilities of officers in respect of the Proceeds of Crime Act 2002 and Money Laundering Regulations 2007. The Head of Internal Audit is the Money Laundering Reporting Officer for the County Council and the Monitoring Officer is the Deputy Money Laundering Reporting Officer. This Policy explains how any allegations of such practice will be dealt with.

(d) **Prosecution and Loss Recovery Policy**

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This policy determines the circumstances in which the suspected perpetrators of fraud may be prosecuted by the County Council. Before any case can be considered for prosecution, it must meet the evidential and public interest criteria contained in the Code for Crown Prosecutors, the aim of which is to ensure that fairness and consistency is achieved in the decision making process. The policy also explains the actions the County Council may take to recover any losses suffered as a result of fraud.

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(e~~d~~) **Fraud and Loss Risk Assessment**

This is an annual assessment which sets out the fraud risks facing the County Council based on events which have occurred, intelligence of events occurring elsewhere and issues which may represent a potential future threat. The risk assessment is also informed by the County Council's corporate and service risk registers which may highlight specific fraud risks. Its aim is to analyse the fraud ~~/ loss~~ risks facing the County Council and then direct internal audit ~~work~~ resources to specific areas to help prevent and detect those risks occurring. ~~fraud and loss.~~ This Assessment will be reviewed by the Audit Committee on an annual basis and its results fed into the preparation of the annual Audit Plan.

3.0 **KEY OFFICERS AND CORPORATE GROUPS**

3.1 There are a number of officers and Corporate Groups which have a key role in protecting the County Council from fraud / loss. These include:

- the **Management Board (MB)** recognises the threat of fraud and corruption and the harm it can cause to the County Council, its aims and objectives and to its service users. The MB is therefore responsible for promoting a culture within the County Council which is resilient to the threat and which addresses~~which is responsible for addressing~~ any issues highlighted in the Fraud and Loss Assessment as areas of high risk

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- the **Corporate Director – Strategic Resources~~Finance and Central Services~~**, as the Section 151 officer, has a specific legal responsibility to ensure adequate and effective anti-fraud/loss arrangements are in place

- ~~the **Outposted Accountants** from the Finance and Central Services Directorate are responsible for ensuring that the Section 151 role of the Corporate Director – Finance and Central Services is discharged in each Directorate. This includes identifying and reporting any matters they consider to be of concern~~

- the **Head of Internal Audit, Veritau Ltd** (HIA) is responsible for developing the Counter Fraud Strategy of the County Council, including raising awareness of fraud risks, arranging a programme of fraud prevention activities and providing advice to managers in the design and application of anti-fraud measures. ~~being the Money Laundering Reporting Officer~~. The HIA is also the Money Laundering Reporting Officer and investigating officer for any issues reported under the Whistleblowing Policy, and is responsible for publishing fraud statistics required by the Local Government Transparency Code.

- the **Corporate Governance Officers Group** is responsible for ensuring that the organisation has fraud and corruption procedures which comply with g~~G~~ood g~~G~~overnance s~~S~~tandards

- the **Corporate Procurement ~~Group~~Board**, whose role includes improving the overall procurement arrangements of the County Council, has a responsibility for developing procedures to detect and prevent fraud in the area of contracting and procurement

- the **Head of Insurance and Risk Management** is responsible for ensuring that ~~the potential for losses due to~~ fraud and corruption risks are considered by managers as part of the County Council's risk management processes and mitigating actions are taken as necessary ~~included in the creation of Risk Registers where appropriate~~

- the **Assistant Chief Executive (Legal and Democratic Services)** as Monitoring Officer has a statutory responsibility under the Local Government and Housing Act 1989 to ensure that the County Council, its officers and Members act lawfully in the discharge of the authority's functions.

4.0 CULTURE

4.1 The employees of the County Council can undertake an important role in identifying possible fraud and corruption and they are therefore ~~positively encouraged~~ required to ~~raise~~ report any concerns that they may have to their line manager immediately. ~~They can do this in the knowledge that such concerns will be treated in confidence, be properly investigated and are fairly dealt with.~~ If necessary a route, other than ~~a~~ their normal line manager ~~or Directorate finance officer~~ may be used to raise such concerns. Examples of such routes are via:-

- a Corporate Director
- the S151 Officer (Corporate Director – Strategic Resources)
- Internal Audit Service – Veritau Ltd
- the Monitoring Officer
- 24 Hour Anti-Fraud Confidential Hotline (see below)

4.2 The County Council has two separate Whistleblowing Policies (one applies to the County Council and the other to Primary Schools) in place in accordance with the Public Interest Disclosure Act. Information leaflets have been distributed to employees and reminders of the Policy's existence will be issued at intervals. Copies of the Policy are available on the intranet and to any employee on request. The

County Council operates a hotline number for members of staff or contractors to report concerns via this route. The hotline is operated by **Veritau Ltd**, the provider of the Internal Audit Service to the County Council, and every attempt is made to protect the confidentiality of callers. ~~However, it is acknowledged that the process of investigating a complaint or allegation may inevitably lead to colleagues speculating on the identity of the source of that allegation.~~ The telephone number for the hotline is 01609 760067. Alternatively, employees may report concerns by e-mail to: counter.fraud@veritau.co.uk

4.3 ~~The County Council has two separate Whistleblowing Policies (one applies to the County Council and the other to Primary Schools) in place in accordance with the Public Interest Disclosure Act. Information leaflets have been distributed to employees and reminders of the Policy's existence will be issued at intervals. Copies of the Policy are available on the intranet and to any employee on request. Employees are encouraged to report concerns to management, and a number of alternative reporting mechanisms are available if an employee feels unable to raise a matter with their immediate line management. Employees may also use the hotline number if they wish.~~

4.4 ~~Employees or members of the public may report concerns by either e-mail or by the completion of an e-form if they wish. The email address is: whistle.blower@northyorks.gov.uk.~~

4.3~~5~~ The County Council, including Members, will be robust in dealing with fraud or financial malpractice. Senior service managers are expected to deal swiftly and firmly with those who defraud, or intend to defraud, the County Council or who commit corrupt acts involving the County Council.

4.4~~6~~ Senior service managers are responsible for ensuring that all suspected or reported irregularities are dealt with promptly and in accordance with proper practice. They should ensure that:-

- any case of suspected or reported fraud, corruption or similar irregularity is reported at the earliest opportunity to the Corporate Director – Strategic Resources~~Finance and Central Services~~ and/or to the Head of Internal Audit (Veritau)~~.~~
- any evidence that may have come into their possession is kept safely and securely (taking advice from Veritau if appropriate)
- the Head of Insurance and Risk Management is notified so that any appropriate insurance claim can be initiated and the irregularity is recorded in the County Council's Risk Registers
- the County Council's disciplinary procedures are implemented when and where appropriate.

4.5~~7~~ Internal Audit (Veritau) will ensure that:-

- any case of suspected or reported fraud or corruption or other irregularity is dealt with promptly

- the Monitoring Officer will be informed as soon as Internal Audit becomes aware of any circumstances where the County Council, its officers or members may have acted unlawfully.
- a log is maintained by Veritau that records details of all concerns raised formally via whistleblowing arrangements
- all evidence is sound, properly recorded, and adequately secured
- the outcome of investigations is reported to senior service management
- all matters warranting referral to the Police are reported as soon as is practicable and that there is adequate liaison with the Police thereafter
- all investigation reports are followed up to ensure that systems weaknesses and disciplinary action identified as appropriate have been progressed as intended
- an Annual Report outlining the level of fraud and corruption within the County Council is submitted to the Audit Committee. This report will summarise the number and types of allegations being communicated to Veritau via the whistleblowing arrangements~~.~~
- the Counter Fraud Strategy, the Whistleblowing Policy, ~~and~~ the Anti-Money Laundering Policy, and the Prosecution and Loss Recovery Policy are reviewed annually and updated as required
- emerging risks to the County Council are identified on an annual basis in the Fraud and Loss Risk Assessment
- an annual review will be carried out into the significance and type of concerns being raised via whistleblowing arrangements to identify patterns and trends or indications that the purpose of the Policy is misunderstood by the County Council's staff and/or contractors~~.~~
- the promotion of staff awareness of the County Council's counter fraud and whistleblowing arrangements and the dissemination of lessons learned (subject to Data Protection constraints).

5.0 PREVENTION

Fraud Risk Management and Control Framework

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5.1 Senior service managers are responsible for the management of fraud risks in their area and should implement appropriate and robust controls and security measures to prevent or mitigate identified fraud risks. It is also their responsibility to maintain the effectiveness of these controls. Proposed changes to the control framework should therefore be carefully considered to avoid any unacceptable fraud risks arising. Senior service managers should also identify any factors that might not be fraud and corruption risks in their own right but could assist in the perpetration of fraud. For example, weak IT controls might allow a fraudster to gain unauthorised access to a system which then enables them to commit fraud.

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5.2 The County Council will also publicise its anti-fraud and corruption stance and the specific actions it takes against fraudsters.

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Members

5.3~~1~~ Members are required to operate within:

- the Members' Code of Conduct
- the Localism Act 2011 and associated legislation
- the County Council ~~Standing Orders~~Constitution
- ~~Sections 94-96 of the Local Government Act 1972~~
- ~~Local Authorities Members Interest Regulations 1992 (SI.618)~~

5.4~~2~~ These matters and other guidance are specifically brought to the attention of Members as part of their induction.~~in the Member's Handbook.~~

Employees

5.5~~3~~ The County Council recognises that a key preventative measure in the fight against fraud and corruption is to take effective steps at the recruitment stage to establish, as far as possible, the previous record of potential employees, in terms of their propriety and integrity. In this regard, temporary and contract employees should be treated in the same manner as permanent employees.

5.6~~4~~ Employee recruitment should therefore be undertaken in accordance with the Recruitment and Selection procedures laid down by the Assistant Chief Executive (Business Support~~HR and OD~~). In particular, written references covering the honesty and integrity of potential employees should be obtained before employment offers are made. Other clearances, for example, Disclosure and Barring Service (DBS)~~Criminal Records Bureau~~ checks, should be obtained where necessary.

5.7~~5~~ Employees are expected to abide by a ~~Code~~ Standards of Conduct Procedure which sets out the County Council's requirements regarding ~~on~~ personal conduct. Employees are also expected to follow any Code of Conduct related to their personal Professional Regulating body.

5.8~~6~~ The County Council has in place a Disciplinary Procedure for employees.

5.9~~7~~ The role that employees are expected to play in the County Council's framework of internal control will feature in employee induction procedures. Induction procedures should also be used to raise awareness of the Whistleblowing arrangements and how any suspected concern may be raised.

5.10~~8~~ The County Council has in place a Constitution containing Contract, Financial and Property Procedure Rules ~~that~~ which provide a framework of control. Employees must operate within these Rules at all times.

5.11~~9~~ The County Council maintains a register of ~~business~~ interests for all key staff (Grade Band 12 and above, or below this grade where the nature of the post warrants the registration of post holder interests) and there is an expectation that all relevant interests will be declared. All employees are also required to declare offers of gifts and hospitality in accordance with the Council's Gifts and Hospitality Protocol for Employees. Any gifts and hospitality offered/declined ~~will~~must be recorded, in accordance with the Protocol, in the Directorate ~~a~~ register and a copy of the registration also sent to the Monitoring Officer for inclusion in the central Register of Officers' Gifts and Hospitality.

Contractors

5.12~~0~~ The County Council expects the highest standards of conduct from all its contractors and the staff they employ. They are consequently covered by the Council's Whistleblowing Policy. ~~has been extended to covers all these staff, and work is ongoing with the Corporate Procurement Group to improve existing procedures for detecting fraud during the procurement process.~~

Joint working~~Combining~~ with other agencies

5.13~~1~~ Arrangements are in place, and continue to be developed, to encourage the exchange of information and intelligence between the County Council and other public agencies on national and local fraud and corruption activity in relation to local authorities. Any such exchange of information is undertaken in accordance with the principles contained in the Data Protection Act 1998 and the Information Commissioner's Office Code of Practice on Data Sharing. Where appropriate, the County Council will also participate in national or regional initiatives designed to prevent and detect fraud, such as data matching.

5.14~~2~~ These public agencies include:-

- the Police
- the Society of County Treasurers
- l~~L~~ocal, r~~R~~egional and n~~N~~ational a~~A~~uditor n~~N~~etworks
- the National Anti Fraud Network
- the CIPFA counter fraud centre
- ~~Audit Commission~~
- ~~The National Fraud Authority~~
- Office of Fair Trading
- Department for Works and Pensions
- Other l~~L~~ocal and public a~~A~~uthorities

6.0 **DETECTION AND INVESTIGATION**

6.1 The County Council has in place an array of preventative systems, particularly internal controls designed to provide indicators of any fraudulent activity. These measures are generally also sufficient in themselves to deter fraud.

6.2 It is the responsibility of Corporate Directors/Heads of Service Units and their line managers to prevent and detect fraud and corruption. However, it is often the alertness of employees and members of the public to such indicators that enables fraud to be detected and the appropriate action to be taken.

6.3 Despite the best efforts of managers and auditors many frauds are discovered by chance or "tip-off" and the County Council has in place arrangements to enable such information to be properly dealt with.

6.4 It is a requirement of the Financial Procedure Rules that all suspected irregularities are reported to the Head of Internal Audit. Reporting is essential to the Counter Fraud Strategy and:-

- ensures the consistent treatment of information relating to suspected fraud and corruption
- facilitates proper investigation by an experienced Internal Audit team
- ensures the proper implementation of a fraud response plan (including proportionate measures to prevent any recurrence)

6.5 The County Council will also undertake targeted counter fraud activities (for example data matching exercises) to detect potential fraud and corruption. This proactive work will be carried out by Veritau as part of its annual work plan. The work will be prioritised based on the annual Fraud and Loss Risk Assessment, and where appropriate, may involve joint exercises with other agencies, including other local councils.

6.6 Depending on the nature and anticipated extent of the allegations, Veritau normally work closely with management, HR, and other external agencies such as the Police to ensure that all allegations and evidence are properly investigated and reported upon. All staff involved in the investigation of fraud will be appropriately trained. They will be required to comply with any relevant legislation and codes of practice. For example the Police and Criminal Evidence Act (PACE), Regulation of Investigatory Powers Act (RIPA), the Data Protection Act, and the Criminal Procedures Investigations Act.

6.7 The County Council's Disciplinary Procedures will be used where the outcome of the audit investigation indicates improper behaviour by a member of staff.

6.8 Where impropriety is discovered and there is evidence that a criminal offence may have occurred, the County Council's policy is that the Police or other relevant law enforcement agency will be informed where appropriate but that this will not delay the matter being dealt with on an internal basis. Referral to the Police or other relevant law enforcement agency is a matter for the Head of Internal Audit following consultation with the Chief Executive Officer, the Corporate Director – Strategic Resources~~Finance and Central Services~~, the Monitoring Officer and/or the relevant Service Corporate Director(s) as appropriate.

6.9 The External Auditor also has powers to independently investigate fraud and corruption, and the County Council can use his services for this purpose, if considered appropriate.

7.0 **RECOVERY OF LOSSES INCURRED**

7.1 When the County Council can demonstrate that it has suffered financial loss and, where it is practical, action will be taken to recover the loss from the individual or organisation concerned. Where criminality has been proven then the Proceeds of Crime Act 2002 may be used to recover funds, where appropriate.

7.2 Other m~~M~~ethods of recovery include, but are not confined to:-

- recovery of pension contributions from employees who are members of the North Yorkshire Pension Fund
- an assessment of what assets are held by an employee or third party, who has committed fraud and whether the losses incurred by the County Council can be recovered through civil proceedings~~there from~~
- bankruptcy if it is believed an individual has a poor history of paying
- if an individual remains an employee of the County Council any assessed losses can be recovered from future salary payments

7.3 Where potential criminal offences may have been committed ~~are involved~~ then cases involving employees will normally be referred to the Police or other relevant law enforcement agency. ~~However, such investigations often take time.~~ The County Council may ~~also~~ decide not to pursue matters further until ~~the~~ such external investigations and/or enforcement action ~~Police investigation case~~ ~~is~~are concluded. ~~and the matter has come to court.~~ However, such investigations often take time. ~~If the Police decide to charge the employee, the matter can also take a long time to come to court.~~ In such circumstances, Veritau's internal auditors will therefore work with Human Resources, within the rules of the disciplinary process, to minimise the ongoing salary payments made to ~~such~~ staff who are subject to investigation.

8.0 **FRAUD AWARENESS AND TRAINING**

8.1 Training, particularly of line managers, is an effective method of raising awareness of the risk of fraud. Veritau will use the outcomes from the annual fraud and loss risk assessment, and other indicators, to determine what counter fraud training may be appropriate, and arrange the delivery of ~~that~~such training. In addition, Veritau will coordinate other measures to raise awareness including the use of newsletters, posters, the intranet and key messages. The effectiveness of training and other fraud awareness activities will be periodically evaluated. ~~This will include the use the companies online training package. A Guide for Managers will also be made available on the Intranet.~~

9.0 **CONCLUSIONS**

9.1 The County Council has in place a clearly defined network of systems and procedures to assist in the fight against fraud and corruption. It is ~~determined~~ recognised that these arrangements ~~will~~ must keep pace with any future developments in both preventative and detection techniques regarding fraudulent or corrupt activity ~~that~~ which may affect its operational activities.

9.2 To this end the County Council maintains a continuous overview of such arrangements in particular, through its Corporate Director – Strategic Resources~~Finance and Central Services~~, the Financial Procedure Rules, Finance Manual and internal audit arrangements.

10.0 **REVIEW OF STRATEGY**

10.1 This Strategy will be reviewed every year and updated as required.

NORTH YORKSHIRE COUNTY COUNCIL

FRAUD PROSECUTION AND LOSS RECOVERY POLICY

February 2015

1 INTRODUCTION

1.1 The Fraud Prosecution and Loss Recovery Policy sets out the circumstances in which the County Council may instigate a prosecution in its own right and the associated decision making process. It also sets out the principles to be followed in recovering losses due to fraud. The Policy is designed to ensure that the Council acts fairly and consistently when determining what, if any, action to take against the perpetrators of fraud or corruption.

1.2 The Policy forms part of the Council's counter-fraud and corruption policy framework. It should be read in conjunction with the Constitution and relevant policies and procedures including the Financial Procedure Rules, the Counter Fraud Strategy, Anti-Money Laundering Policy and Procedure, Whistleblowing Policy, and the Council's disciplinary policy and procedures for employees and Member ethical framework arrangements.

1.3 The Policy is intended to reflect the provisions of the Code for Crown Prosecutors issued by the Director of Public Prosecutions. It should be read in conjunction with the latest version of the Code, which provides detailed guidance on the factors to consider when making decisions about prosecution.

2 SCOPE

2.1 The Policy covers all acts, and/or attempted acts, of fraud or corruption committed by employees, Members of the Council, or members of the public, or other organisations or their employees against the Council. The Policy is intended to be broad ranging to cover any acts, or purported acts, of fraud and corruption and any related acts which chief officers determine are appropriate to be dealt with under it. Offences which are dealt with under other specific powers and policies (for example the enforcement of trading standards regulations) are not covered by this Policy.

3 PRINCIPLES

3.1 As part of its measures to deter fraud the Council will take appropriate action against anyone who has committed (or has attempted to commit) a fraudulent or corrupt act, in which the Council has an interest. Those guilty of fraud or corruption must take responsibility for their actions before the courts.

3.2 Action to be taken will be determined on a case by case basis and every case will be considered on its own merits. This may include decisions about whether the Council or another agency (for example the Police or Department for Work and Pensions) is best placed to take investigative and/or enforcement action. Where a case is referred to another agency then the Crown Prosecution Service would normally be responsible for the prosecution of any offences. This Policy is therefore intended to cover those situations where the Council itself has investigated the suspected fraud.

3.3 Employees and Members who are found to have committed fraud or corruption may be prosecuted in addition to any other action that the Council may decide to take, including disciplinary proceedings in the case of employees and referral to the Monitoring Officer under standards arrangements in the case of Members. Any decision not to prosecute an employee for fraud and corruption does not preclude remedial action being taken by the relevant Chief Officer in accordance with the Council's disciplinary procedures or other policies.

3.4 This Policy is designed to be consistent with Council policies on equalities. The Council will be sensitive to the circumstances of each case and the nature of the alleged fraud when considering whether to prosecute or not.

3.5 The Council recognises the value of good publicity in helping to deter fraud and corruption. Information about successful prosecutions or other actions will therefore be made public, so far as it is reasonable to do so, and in accordance with data protection provisions.

3.6 Any decision taken to prosecute an individual, or take other action, will be recorded in writing. The reason for the decision being taken will also be recorded (see section 7).

3.7 Irrespective of whether action is taken to prosecute the perpetrators of fraud and corruption, the Council may take whatever steps are necessary to recover any losses incurred, including taking action in the civil courts.

4 PROSECUTION

4.1 Not every suspected offence should be considered for prosecution. The Council will weigh the seriousness of the offence (taking into account the harm done or the potential for harm arising from the offence) with other relevant factors, including the financial circumstances of the individual concerned, mitigating circumstances and other public interest criteria. All cases will be looked at individually and considered on their own merit.

4.2 To consider a case for prosecution the Council must be satisfied that two tests have been passed. Firstly, there must be sufficient evidence. This is called the evidential test. Secondly, it must be in the public interest to proceed – the public interest test[1].

4.3 To pass the evidential test, there must be a realistic prospect of conviction based on the available evidence (that is, there must be sufficient admissible, reliable and credible evidence to secure a conviction).

4.4 To pass the public interest test, the Council will need to balance, carefully and fairly, the seriousness of the offence and other public interest criteria. The criteria include[2]:

- the level of culpability of the suspect (for example how deliberate was the crime)
- who is affected by the offence and the level of harm caused or potential harm
- the impact of prosecution on the suspect (for example on their future prospects)
- the impact of the crime on the community
- whether prosecution is proportionate (for example given the cost and likely outcome).

[1] Decisions will be made by the Corporate Director Strategic Resources in consultation with the Assistant Chief Executive (Legal and Democratic Services) and other relevant officers, as appropriate – see 7.1.
[2] the Code for Crown Prosecutors contains further guidance.

4.5 Factors favouring prosecution include the following.

- If the actual or potential loss to the Council was substantial.
- The fraud has continued over a long period of time.
- The fraud was calculated and deliberate.
- The suspect has previously committed fraud against the Council (even if prosecution did not result) and/or there has been a history of fraudulent activity.
- The suspect was in a position of trust (for example, a Council employee).
- There has been an abuse of position or privilege.
- The suspect has declined the offer of a caution or other sanction.
- There are grounds for believing the offence is likely to be repeated.
- The Council needs to take action to deter fraud in an area of activity.

4.6 Factors against prosecution include the following.

- The court is likely to impose a nominal penalty.
- The seriousness and the consequences of the offending can be appropriately dealt with by other means.
- The offence was committed as a result of a genuine mistake or misunderstanding.
- The loss or harm was minor, was a one-off occurrence and was the result of misjudgement.
- Undue delay between the offence taking place and/or being detected and the date of the trial (though this depends, for example, on the seriousness of the case, whether the delay was caused by the suspect, if the complexity of the case required a long investigation, or if the offence has only recently come to light).
- Prosecution is likely to have an adverse effect on the suspects physical or mental health.
- The suspect has put right the loss or harm which was caused.

4.7 The following factors (4.8 – 4.11) will also be taken into account when determining whether to prosecute.

Voluntary Disclosure

4.8 A voluntary disclosure occurs when a suspect voluntarily reveals fraud about which the Council is otherwise unaware. If this happens, then the fraud will be investigated but the suspect will not be prosecuted unless in exceptional circumstances. However, any person colluding in the crime will still be prosecuted. A disclosure is not voluntary if the:

- admission is not a complete disclosure of the fraud
- admission of the fraud is made only because discovery of the fraud is likely (for example, the suspect knows the Council is already undertaking an investigation in this area and/or other counter fraud activity)
- the suspect only admits the facts when challenged or questioned
- the offence comes to the Council's attention other than through a direct admission to the offence (for example if it comes to light on submission of information for Council services or through a third party).

Ill Health or Disability

4.9 Where the suspect is suffering from prolonged ill health or has a serious disability or other incapacity then the suspect will not normally be prosecuted. Evidence from a GP or other doctor will be requested if the condition is claimed to exist, unless it is obvious to the investigator. It is also necessary to prove that the person understood the circumstances and was aware that their action was wrong. This may not be possible where, for instance, the suspect has serious learning difficulties. However, simple ignorance of the law will not prevent prosecution.

Social Factors

4.10 A wide range of social factors may make a prosecution undesirable.

Exceptional Circumstances

4.11 In certain exceptional circumstances the Council may decide not to prosecute a suspect. Such circumstances include:

- an inability to complete the investigation within a reasonable period of time
- the prosecution would not be in the interests of the Council
- circumstances beyond the control of the Council make a prosecution unattainable.

5 ALTERNATIVES TO PROSECUTION

5.1 Where evidence is sufficient for prosecution, but there are factors which tend to indicate that prosecution may not be in the public's or Council's interest, then the Council may consider the offer of a sanction instead. The sanctions available will depend on the nature of the offence but may include, for example, fines or denial of service[3]. Decisions will be made on a case by case basis taking into account the specific circumstances and sanctions available.

5.2 In addition, or as an alternative, the Council may also give a simple caution. A simple caution is a warning given in certain circumstances as an alternative to prosecution, to a person who has committed an offence. A simple caution is a serious matter and all such cautions will be recorded by the Council. Where a person offends again in the future then any previous cautions will influence the decision on whether to prosecute or not. A simple caution will normally be offered where all of the following apply.

- There is sufficient evidence to justify instituting criminal proceedings.
- The person has admitted the offence.
- It was a first offence.

5.3 Only in very exceptional circumstances will a further caution be offered for a second or subsequent offence of the same nature.

5.4 If a caution is offered but not accepted then the Council will usually consider the case for prosecution. In such cases the court will be informed that the defendant was offered a simple sanction but declined to accept it.

[3] The nature of the sanctions available will depend on the regulations governing the service area where the fraud has occurred.

6 RECOVERY

6.1 Alongside any criminal proceedings, the Council will also take all reasonable measures to recover any losses arising from fraud. Recovery may be undertaken if there is sufficient evidence to demonstrate a loss/debt and irrespective of whether there is sufficient evidence to prove a criminal case.

6.2 Methods of recovery may include (but are not limited to):

- recovery of pension contributions from employees or ex-employees who are members of the North Yorkshire Pension Fund
- civil action through the courts
- bankruptcy if it is believed an individual has a poor history of paying debts
- recovery of losses through salary payments if an individual remains an employee of the Council.

6.3 Where the assessed loss is to be pursued as a debt, then an invoice will be raised. Recovery will be undertaken in accordance with the Council's normal policy and procedures for recovering debts.

6.4 The Council may use powers under the Proceeds of Crime Act 2002 to apply to the courts for restraint and/or confiscation of identified assets where appropriate.

7 RESPONSIBILITIES

7.1 During the course of fraud investigation cases, recommendations about prosecution or other appropriate courses of action will be made to the Council by Veritau (the Council's counter fraud service provider). Decisions about the action to be taken in response to these recommendations will be made by the Corporate Director Strategic Resources in consultation with the Assistant Chief Executive (Legal and Democratic Services) and other relevant chief officers, as appropriate. Veritau will maintain records of decisions.

7.2 Cautions given under this Policy will be administered by a senior Veritau officer, on behalf of the Council. Veritau will also maintain records of cautions.

ITEM 9

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

5 March 2015

ANNUAL TREASURY MANAGEMENT STRATEGY 2015/16

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

1.1 To Review the County Council's Treasury Management Policy Statement and Annual Treasury Management and Investment Strategy for 2015/16.

2.0 BACKGROUND

2.1 In its scrutiny role of the County Council's Treasury Management policies, strategies and day to day activities, this Committee receives regular updates on Treasury Management activities and developments, including the quarterly reports submitted to Executive. These updates and reports provide Audit Committee Members with details of the latest Treasury Management developments, both at a local and national level. They also enable Members to review Treasury Managements arrangements and consider whether they wish to make any recommendations to the Executive.

2.2 As the County Council is required to approve an up to date Annual Treasury Management and Investment Strategy before the start of the new financial year, it is not realistic for it to be reviewed by the Audit Committee in advance of its submission to Executive on 3 February and full Council on 18 February 2015.

2.3 The Annual Treasury Management documentation for 2015/16 is therefore submitted for review to this meeting of the Audit Committee. Any resulting proposals would then be considered at a subsequent meeting of the Executive. If any such proposals were accepted and required a change to the Strategies recently approved then the Executive could submit a revised version to the County Council at its meeting on 20 May 2015.

3.0 ANNUAL TREASURY MANAGEMENT POLICY / STRATEGY FOR 2015/16

3.1 The Full Treasury Management Documentation submitted to Executive on 3 February and full Council on 18 February 2015 is therefore attached and comprises of:

a) The Covering Report to Executive / Full Council

b) The County Council's Treasury Management Policy Statement (**Appendix A to the attached report)**

c) The Annual Treasury Management and Investment Strategy 2015/16 **(Appendix B to the attached report)** which incorporates a Minimum Revenue Provision Policy and a policy to Cap Capital Financing costs as a proportion on the annual Net Revenue Budget.

3.2 Audit Committee members are therefore invited to review this documentation and consider whether they would wish to make any proposals to be referred back to the Executive.

4.0 RECOMMENDATION

4.1 That Audit Committee Members review the attached 2015/16 Treasury Management documentation and consider whether they would wish to make proposals to be referred back to the Executive.

GARY FIELDING

Corporate Director – Strategic Resources

Central Services
County Hall
Northallerton

16 February 2015

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

3 February 2015

TREASURY MANAGEMENT

Report of the Corporate Director – Strategic Resources

1.0 **PURPOSE OF REPORT**

1.1 To recommend to the County Council an updated Annual Treasury Management Strategy for the financial year 2015/16 which incorporates:

(a) the Annual Investment Strategy;

(b) a Minimum Revenue Provision Policy;

(c) a policy to cap Capital Financing costs as a proportion of the annual Net Revenue Budget.

2.0 **BACKGROUND**

2.1 The County Council is required to adopt certain procedures in relation to Treasury Management which is defined 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”.

2.2 Primarily the County Council is expected to comply with the terms of the **CIPFA Code of Practice on Treasury Management in the Public Services** which was last updated by CIPFA in November 2011 and adopted by the County Council on 15 February 2012.

2.3 In addition, the County Council must also comply with the **CIPFA Prudential Code for Capital Finance in Local Authorities** which impacts heavily on Treasury Management matters. This Code was also updated in November 2011 alongside the updated Code of Practice on Treasury Management referred to in **paragraph 2.2** above.

2.4 The Local Government Act 2003 requires the County Council to have regard to the Prudential Code and set Prudential Indicators for the next three financial years to ensure that the County Council’s capital investment plans are affordable, prudent and sustainable.

2.5 In addition to the two CIPFA codes referred to in **paragraphs 2.2 and 2.3** above, the Government (Department of Communities and Local Government - CLG) issues statutory guidance on

(a) Local Government Investments - revised with effect from 1 April 2010, and;

(b) Minimum Revenue Provision (for debt repayment) - revised with effect from 1 April 2012

to which the County Council must have regard.

2.6 A separate report on the Prudential Indicators for the three years 2015/16 to 2017/18 is also submitted to this Executive on 3 February 2015. That report should be read in conjunction with this report because of the interaction between the Prudential Indicators and the Treasury Management arrangements.

2.7 The combined effect of these Codes and other relevant Regulations is that the County Council has to have in place by the start of the new financial year the following:

(a) an up to date **Treasury Management Policy Statement** - see **Section 3** below;

(b) a combined **Annual Treasury Management and Investment Strategy** and **Minimum Revenue Provision Policy** - see **Section 4**.

2.8 In addition to these Statutory Requirements, the County Council also agreed an additional local policy to cap Capital Financing costs as a proportion of the annual Net Revenue Budget. This is now incorporated into the Annual Treasury Management and Investment Strategy.

2.9 This report considers the above requirements and then recommends an updated Annual Treasury Management Strategy for the financial year 2015/16 which incorporates the Annual Investment Strategy and required Minimum Revenue Provision Policy.

3.0 TREASURY MANAGEMENT POLICY STATEMENT

3.1 The CIPFA Code of Practice on Treasury Management (as updated in 2011) requires the County Council to approve:

(a) a **Treasury Management Policy Statement** (TMPS) stating the County Council's policies, objectives and approach to risk management of its Treasury Management activities;

(b) a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the County Council will seek to achieve the policies and objectives set out in (a) and prescribing how it will manage and control those activities. The Code recommends 12 TMPs.

3.2 The TMPS referred to in **paragraph 3.1 (a)** is attached as **Appendix A** and reflects only very minor changes for 2015/16.

3.3 The 12 TMPs recommended by the code referred to in **paragraph 3.1 (b)** which were originally submitted to Members in March 2004 were updated and approved by the Audit Committee on 6 December 2012.

4.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY 2015/16

4.1 One of the key requirements of the CIPFA Code of Practice on Treasury Management continues to be that an Annual Treasury Management Strategy (ATMS), which incorporates a set of Borrowing Limits and Requirements for the year, is considered and approved before the start of each financial year.

4.2 The ATMS must also include reference to external debt levels, the Prudential Indicators as well as the Annual Investment Strategy (AIS) requirements.

4.3 The proposed **Annual Treasury Management Strategy for 2015/16**, incorporating the Annual Investment Strategy, is therefore attached as **Appendix B** to this report. The key elements of the Strategy are as follows:-

(a) an authorised limit for external debt of **£398.7m** in 2015/16;

(b) an operational boundary for external debt of **£378.7m** in 2015/16;

(c) a borrowing limit on fixed interest rate exposure of 60% to 100% of outstanding principal sums and a limit on variable interest rate exposure of 0% to 40% of outstanding principal sums;

(d) borrowing from the money market for capital purposes is to be limited to 30% of external debt outstanding at any one point in time;

(e) an investment limit on fixed interest rate exposure of 0% to 30% of outstanding principal sums and a limit on variable interest rate exposure of 70% to 100% of outstanding principal sums;

(f) a limit of £20m of the total cash sums available for investment (both in house and externally managed) to be invested in Non Specified Investments over 364 days;

(g) a 10% cap on Capital Financing costs as a proportion of the annual Net Revenue Budget;

(h) a Minimum Revenue Provision (MRP) policy for debt repayment to be charged to the Revenue Budget in 2015/16 as set out in **Section 11** of **Appendix B**;

(i) the Corporate Director – Strategic Resources to report to the County Council if and when necessary during the year on any changes to this Strategy arising from the use of operational leasing, PFI or other innovative methods of funding not previously approved by the County Council.

Long Term Debt Position

4.4 In **Section 10 of Appendix B**, reference is made to the long term debt position of the County Council and the attempts being made to reduce the consequential interest charge impact on the annual Revenue Budget.

4.5 As previously reported to Members the long term debt position of the County Council is essentially related to the level of capital expenditure undertaken. The growth of the County Council's long term outstanding debt is demonstrated by the following table:-

@ **Year End**	**Debt Outstanding (A)**	**Year on Year Variation**
	£m	**£m**
31 March 2001 actual	147.3	
2002 actual	148.9	+ 1.6
2003 actual	180.2	+ 31.3
2004 actual	215.1	+ 34.9
2005 actual	231.7	+ 16.6
2006 actual	274.4	+ 42.7
2007 actual	299.0	+ 24.6
2008 actual	328.2	+ 29.2
2009 actual	329.7	+ 1.5 (B)
2010 actual	323.9	- 5.8 (B)
2011 actual	390.1	+ 77.6 (B)
2012 actual	376.8	- 13.3 (C)
2013 actual	350.0	- 26.8 (C)
2014 actual	344.6	- 5.4 (C)
2015 forecast	352.7	+ 8.1
2016 forecast	345.0	- 7.7
2017 forecast	338.7	- 6.3
2018 forecast	333.8	- 4.9

see **paragraphs 4.6 to 4.10**

(A) Excludes other long term liabilities such as PFI contracts and finance leases which are regarded as debt outstanding for Prudential Indicator purposes.

(B) Reflects the impact of premature repayment of external debt in 2008/09 and 2009/10 and its subsequent refinancing in 2009/10 and 2010/11, together with the capital borrowing requirement for 2009/10 being rolled forward into 2010/11.

(C) Reflects the current policy of internally financing capital expenditure from cash balances which, at some stage, will have to be reversed.

4.6 The debt outstanding forecasts for 31 March 2015 and subsequent years in the table at **paragraph 4.5** above and the Prudential Indicators relating to external debt are based on an assumption that the annual capital borrowing requirements for the years 2014/15 to 2017/18 being taken externally each year. As explained in **paragraphs 6.9 and 8.5 to 8.13** of **Appendix B**, consideration will be given however to delaying external borrowing throughout this period and funding annual borrowing requirements from revenue cash balances (i.e. running down investments). This has the potential for achieving short term revenue savings and also has the benefit of reducing investment exposure to credit risk.

4.7 Furthermore a key point in relation to debt levels is a proposal in the Revenue Budget report on today's agenda to set aside £10m in the 2015/16 revenue budget for debt repayment / capital financing purposes. Because of the timing and the preferred approach within the available options is not yet finalised the impact of this is not reflected in any of the debt projections in this report and it's appendices. This also applies to the various Prudential Indicators covered in **Section 3 of Appendix B** and the separate Prudential Indicators report. If implemented in 2015/16 however the expected impact would be to reduce capital debt levels (internal and external) by £10m which would achieve recurring revenue savings in capital financing charges (repayment of principal) in subsequent years.

4.8 The above table shows the County Council's external debt increased by 234% between 2001 and 2013. The increase in the years since 2002 to 2011 is particularly noticeable – this is primarily attributable to the increase in the value of annual Highways LTP allocations and the availability of Prudential Borrowing which has been deliberately used by the County Council to boost the size of the Capital Plan and thereby invest in its asset infrastructure. The ratio of borrowing related to government borrowing approvals as opposed to being locally determined under the prudential regime has been approximately 80/20 in the period up to 31 March 2011.

4.9 A significant feature of the 2011/12 Local Government Finance Settlement, however, was that all Government capital approvals from 2011/12 were funded from capital grants rather than the previous mix of grants and borrowing approvals. This reduces annual capital borrowing and debt levels by about £33m per annum with a consequential impact on capital financing costs. The impact of this is reflected in the table in **paragraph 4.5** with forecast debt outstanding levels after 31 March 2011 starting to reduce year on year.

4.10 The change referred to in **paragraph 4.9** above has had significant implications on the future Treasury Management operations and consequential Prudential Indicators in terms of

- reduced annual borrowing requirement and consequential debt levels from 2011/12 as indicated in the table in **paragraph 4.5**
- the potential for the annual Minimum Revenue Provision (MRP) for debt repayment exceeding the actual new borrowing requirement in the year resulting in a net debt repayment required with potential early repayment penalties (premiums)
- reduced capital financing costs (interest + MRP) which were built into the 2011/12 Revenue Budget/MTFS
- significant impact on many Prudential Indicators

4.11 After reflecting the factors referred to in **paragraphs 4.9 and 4.10** above, the revenue cost of servicing the debt which impacts directly on the Revenue Budget / Medium Term Financial Strategy will be about £28.3m in 2015/16; this consists of interest payments of £14.0m and a revenue provision for debt repayment of £14.3m.

4.12 As shown in the table at **paragraph 4.5** and explained subsequently in **paragraphs 4.9** and **4.10**, the debt outstanding levels of the County Council based on the current Capital Plan, start to reduce each year from 2011/12. This assumes that the Government continues to fund future capital approvals through grants rather than the previous mix of grant and supported borrowing approvals. These debt levels could be reduced further by

(a) curtailing fresh capital investment and removing/reducing Capital Plan provisions that remain funded from external prudential borrowing;

(b) significantly increasing the Revenue Budget/MTFS provision for debt repayment above the agreed Prudential policy (about 4% of debt) that is currently made;

(c) removing Capital Plan schemes funded by capital receipts and using those receipts, together with future additional receipts and the current corporate capital pot, for debt repayment, rather than new capital investment;

(d) funding total annual borrowing requirements from internal cash balances and thus running down investments. This internal capital financing option is referred to in more detail in **paragraph 4.6** above and **paragraphs 6.9 and 8.5 to 8.13** of **Appendix B**;

(e) following (d) above, external debt could also be prematurely repaid from internal cash balances and thus also running down investments.

4.13 As previously reported to Members, this historical growth in debt is not unique to the County Council as the reasons for the growth, referred to in **paragraph 4.8** above, apply to most County and Unitary Councils throughout the country. Based on statistics available, the tables below demonstrate this debt growth of comparable County Councils together with a comparison of capital financing costs as a percentage of Net Revenue Budgets

External Debt Outstanding Levels

Year	**Lowest**	**NYCC**	**Average**	**Highest**
Actual Levels	**£m**	**£m**	**£m**	**£m**
31/03/13	244.6	350.0	422.4	1,012.3
31/03/14	247.4	344.6	426.0	1,010.3
growth in debt				
actual 5 year growth from 31/03/09 to 31/03/14	-19%	+8%	+5%	+79%

Capital financing costs (interest plus the required revenue provision for debt repayment) as a percentage of the Net Revenue Budget based on latest comparative figures.

Year	**Lowest**	**NYCC**	**Average**	**Highest**
	%	**%**	**%**	**%**
2013/14 estimates	4.6	8.2	9.2	13.6
2014/15 estimates	5.0	7.9	9.0	13.3

4.14 It is worth noting the following points in relation to the above two tables

(a) the County Council's absolute external debt level continues to be below the average of other Shire Counties;

(b) the County Council's historical debt growth over the 5 year period 31 March 2009 to 31 March 2014 continues to be above the average of other shire counties

(c) the County Council's capital financing costs (interest and principal) as a percentage of the Net Revenue Budget is below the average of other County Councils;

(d) the range of debt levels and percentage of capital financing costs relative to the Net Revenue Budget can depend on a number of factors such as:-

- historical borrowing levels and rates of interest on those borrowings
- comparative levels of borrowing approvals issued by the Government up to 2010/11
- comparative levels of Prudential Borrowing
- relative levels of internally financed capital borrowing
- debt rescheduling activities which can reduce ongoing interest costs at the expense of accumulated repayment premiums which are written back to revenue over a period of years and result in lost interest earned;

(e) because of the factors mentioned in (d) above the comparison of debt and financing costs between authorities will be increasingly meaningless as time progresses.

Age profile of the external debt

4.15 The age profile of the County Council's external debt as at 31 March 2014 is as follows:-

Length of Period	£m
up to 1 year	39.8
1 year to 2 years	8.2
2 years to 5 years	31.5
5 years to 10 years	76.6
10 to 25 years	34.7
25 to 40 years	126.3
above 40 years	27.5
Total external debt at 31 March 2014	**344.6**

4.16 Some points to highlight in relation to the above table are as follows

(a) there is no predetermined or model age profile and decisions to borrow have been taken each year in the light of current and forecast future interest rates together with the yield curve;

(b) new borrowing in recent years has focused on longer period fixed term loans due to their historically low interest rates;

(c) a period spread of the age profile is important to avoid having to refinance loans repaid within relatively short periods;

(d) the 2015/16 Borrowing Strategy set out in **Section 8 of Appendix B** will mean that the County Council should be able (in current and forecast market conditions) to undertake cost effective borrowing over markedly shorter periods than in previous years and so achieve a more even spread of the debt maturity profile. This is subject, of course, to the potential impact of delaying annual borrowing requirements to later years by utilising cash balances and running down investments. As covered elsewhere in this report, however, future new borrowing levels are significantly lower than in previous years (see **paragraphs 4.9 and 4.10)**.

5.0 CREDIT RATING CRITERIA AND APPROVED LENDING LIST

5.1 The criteria for monitoring and assessing organisations (counterparties) to which the County Council may make investments (i.e. lend) are incorporated into the detailed Treasury Management Practices (TMPs) that support the Treasury Management Policy Statement (TMPS). Applying these criteria enables the County Council to produce an Approved Lending List of organisations in which it can make investments, together with specifying the maximum sum that at any time can be placed with each. The Approved Lending List is prepared, taking into account the advice of the County Council's Treasury Management Advisor, Capita Asset Services – Treasury Solutions. **(See paragraph 13 of Appendix B).**

Changes to Credit Methodology

Since the financial crisis, the main rating agencies (Fitch, Moody's and Standard & Poor's) have included an assumption, when assessing credit worthiness, that an institution would obtain support from Government should the institution fail, (i.e. implied levels of sovereign support).

Following the proposed changes to the regulatory regime, the rating agencies have indicated these implied "uplifts" in credit quality will be slowly withdrawn, although the actual timing of these changes is still to be decided .

It is important to stress that the rating agency changes do not reflect any changes in the underlying status of the institution or credit environment, merely the implied level of sovereign support that has been built into ratings through the financial crisis.

As a result of these rating agency changes, the credit element of our future methodology will focus solely on the Short and Long Term ratings of an institution. This excludes those ratings (e.g. Viability and Financial Strength ratings) which could include the implied sovereign support “uplift”. Rating Watch and Outlook information will continue to be assessed and we will continue to utilise CDS (Credit Default Swap) prices as an overlay to ratings.

Lending criteria for 2015/16

5.2 In order to minimise the risk to investments, the County Council will continue to apply a minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. This approach has reflected the following:-

(a) a system of scoring each organisation using Capita’s enhanced creditworthiness service. This service, revised during 2014/15 to reflect continuing regulatory changes, uses a sophisticated modelling system that includes:

- credit ratings published by the three credit rating agencies (Fitch, Moodys and Standard and Poor) which reflect a combination of components (long term and short term,)
- credit watches and credit outlooks from the rating agencies
- credit Default Swaps (CDS) spreads to give early warnings of likely changes in credit ratings
- other information sources, including, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

(b) sole reliance is not placed on the information provided by Capita. In addition the County Council also uses market data and information available from other sources such as the financial press and other agencies and organisations

(c) in addition to the above, the following measures also continue to be actively taken into consideration:

- institutions will be removed or temporarily suspended from the Approved Lending List if there is significant concern about their financial standing or stability
- investment exposure will be concentrated with higher rated institutions wherever possible.

5.3 By collating and reviewing on an ongoing basis the above data, the County Council aims to ensure that the most up-to-date information is used to assist in the assessment of credit quality and is seen as a practical response to the continuing money market instability and volatility.

5.4 It is, therefore, proposed that the, as summarised in **paragraph 5.2** above, be utilised for 2015/16. These criteria are set out in full in **paragraph 12.8** of the Annual Treasury Management and Investment Strategy 2015/16 (**Appendix B**) attached and reduce price will enable the County Council to continue to monitor and control its money market risk exposure whilst also ensuring that it can achieve a return that is consistent with market rates.

Debt Management Office Deposit Account

5.5 The Debt Management Office (DMO) Deposit Account is an investment facility introduced several years ago by the Government specifically for public authorities. This facility is AAA rated as it is part of the HM Treasury Operations and can be regarded as lending to the Government. It is, therefore, a 100% safe house lending option with no upper investment limit. Its standard interest rate however of 0.25% is below what could realistically be achieved elsewhere for similar short term investments.

5.6 This investment option is included in the County Council's current approved lending list with a maximum investment limit of £100m. The facility was used for the first time in 2013/14 for a relatively short period as a result of a high level of cash balances and maximum investment limits being reached with the key organisations remaining on the lending list. Following increases in the investment limits to some organisations together with reducing cash balances and other factors, the facility has not been used again since September 2013.

5.7 Up until 2008/09 this facility had not been used by many local authorities because of its low interest rate. Following the turmoil and uncertainty in the financial markets however and the collapse of Icelandic banks in October 2008, many local authorities started to use the facility quite widely. Although its use is now reducing a number of authorities still continue to use the facility to some extent.

5.8 The DMO account will therefore remain on the County Council's approved Lending List as a precaution.

Approved Lending List

5.9 The current Approved Lending List is attached to this report as **Schedule C** to the Annual Treasury Management and Investment Strategy 2015/16 (**Appendix B**). The List, however, continues to be monitored on an ongoing basis and changes made as appropriate by the Corporate Director – Strategic Resources to reflect credit rating downgrades/upgrades, mergers or market intelligence and rumours that impact on the credit 'score' and colour coding as described in **paragraph 5.10** below.

5.10 As mentioned in **paragraph 5.2 (a)** the County Council evaluates an organisation's credit standing by using Capita's credit worthiness service. This service uses credit ratings and credit watch/outlook notices from all three principal market agencies overlaid by trends within the Credit Default Swap (CDS) market. All this information is then converted into a weighted credit score for each organisation and only those organisations with an appropriate score will fulfil the County Council's minimum credit criteria. The score is then converted into the end product of a colour code which is used to determine the maximum investment term for an organisation. Details of this assessment criteria is included in the Annual Treasury Management and Investment Strategy 2015/16 (**paragraphs 12.8 (c) of Appendix B**).

5.11 Utilising the assessment of credit quality, the criteria and investment limits for **specified investments** (a maximum of 364 days) are:

- institutions which are partially owned by the UK Government, (Nationalised Banks), being limited to £85m
- other institutions achieving suitable credit scores and colour banding being limited to a maximum investment limit of between £20m and £75m (actual duration and investment limit dependant on final score/colour)
- all foreign bank transactions are in sterling and are undertaken with UK based offices

5.12 The criteria f**or Non Specified Investments** (for periods of more than 364 days) are:

- investments over 1 year to a maximum of 2 years with institutions which have suitable credit score
- The maximum amount for all non-specified investments is £5m with any one institution

5.13 Local Authorities will continue to be included on the Approved Lending List for 2015/16, although suitable investment opportunities with them are limited. Because of the way they are financed and their governance arrangements, Local Authorities are classed as having the highest credit rating.

5.14 The information below details all the changes reflected in the latest Approved Lending List (**Schedule C to Appendix B**) compared with that submitted for 2014/15 in February 2014. Please note that the analysis below is between the version provided last year and the proposed list for 2015/16 – it is a snapshot at a point in time. It is therefore possible that there will be in year changes that are not identified in this snapshot.

(a) organisations included on the 2014/15 Approved Lending List which will NOT be included for 2015/16

Organisation	**Reason**
Ulster Bank Ltd	Due to fall in Credit Ratings

(b) organisations who continue to be included on the 2015/16 Approved Lending List, but whose Maximum Investment Duration will remain as nil until Credit Ratings and market sentiment improve

Organisation	**Reason**
Clydesdale Bank (Trading as the Yorkshire Bank)	Due to fall in Credit Ratings

(c) organisations added to the Approved Lending list

Organisation	Date Added	Investment Limit £m
Goldman Sachs International	Jul-14	40
Commonwealth Bank of Australia	Aug-14	20
Leeds Building Society	Nov-14	20

(d) increase in lending limits for

Organisation	Original Investment Limit £m	Revised Investment Limit (November 2014) £m
Lloyds Banking Group	75	85
RBS Group	75	85
Barclays Bank	65	75

These additions and increases were approved by the Corporate Director – Strategic Resources under delegated powers on 22 July, 14 August, 10 November and 19 November 2014 respectively.

These amendments were made as part of a continuous review of investments'. Although there were no immediate pressures on the Lending List, the reasons for the additions and increases were as follows:-

(i) increase exposure levels to the main 'high quality' UK banks relative to others;

(ii) being prepared for cash balances increasing as a result of the inclusion of balances held on behalf of Selby District Council;

(iii) increase diversity within the approved lending list;

(iv) increasing yield by being able to invest further sums for 1 year;

(e) further changes were made during the year to increase and decrease the maximum investment term for some organisations. This was the result of market movements between the Credit Default Swap and iTraxx benchmark, an early warning of likely changes to credit ratings in the future;

Further Options

5.15 Because of the stringent credit rating criteria being adopted (**paragraph 5.2**), there are relatively few organisations remaining on the County Council's Approved Lending List (**Schedule C to Appendix B**). The impact of future downgradings, mergers and other market intelligence could, therefore, reduce the list even further and present operational difficulties in placing investments. Under these circumstances, options that could be considered at some point in the future are as follows:-

(a) continue to run down investments through taking no new borrowing (**paragraphs 8.5 to 8.13 of Appendix B**);

(b) running down investments through repaying existing debt prematurely subject to debt repayment premium constraints (**paragraphs 10.4 and 10.5 of Appendix B**);

(c) considering the addition to the Approved Lending List of further high quality, highly rated foreign banks;

(d) increasing the lending limits again for those high quality UK banks remaining on the Approved Lending List;

(e) using the Government's DMO account (**paragraphs 5.5 to 5.8**),'Triple A' rated Money Market funds or other potentially available mechanisms such as Certificates of Deposit (CD's);

(f) actively looking to invest with other local authorities although demand is very spasmodic and interest rates being offered are relatively poor;

6.0 REVIEW BY AUDIT COMMITTEE

6.1 In its scrutiny role of the County Council's Treasury Management policies, strategies and day to day activities, the Audit Committee receives regular Treasury Management reports. These reports provide Audit Committee Members with details of the latest Treasury Management developments, both at a local and national level and enable them to review Treasury Management arrangements and consider whether they wish to make any recommendations to the Executive.

6.2 As the County Council is required to approve an up to date Annual Treasury Management and Investment Strategy before the start of the new financial year, it is therefore not realistic for the Audit Committee to review this document in advance of its submission to Executive and the subsequent consideration by County Council on 18 February 2015.

6.3 As in recent years it is therefore proposed that the Treasury Management Policy Statement (**Appendix A**) and updated Annual Treasury Management and Investment Strategy for 2015/16 (**Appendix B**) is submitted for review by the Audit Committee on 5 March 2015. Any resulting proposals for change would then be considered at a subsequent meeting of the Executive. If any such proposals were accepted and required a change to the (by then) recently approved Strategy document the Executive would submit a revised document to the County Council at its meeting on 20 May 2015.

7.0 ARRANGEMENTS FOR MONITORING / REPORTING TO MEMBERS

7.1 Taking into account the matters referred to in this report, the monitoring and reporting arrangements in place relating to Treasury Management activities are now as follows:

(a) an annual (i.e. this) report to Executive and County Council as part of the Budget process that sets out the County Council's **Treasury Management Strategy and Policy** for the forthcoming financial year;

(b) an annual report to Executive and County Council as part of the Budget process that sets the various **Prudential Indicators**, together with a mid year update of these indicators as part of the Q1 Performance Monitoring report submitted to the Executive (see **(d)** below);

(c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year;

(d) a quarterly report on Treasury Management matters to Executive as part of the **Quarterly Performance and Budget Monitoring** report;

(e) **periodic meetings** between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

(f) reports on proposed changes to the County Council's Treasury Management activities are submitted as required to the **Audit Committee** for consideration and comment; this is in addition to the arrangements referred to in **Section 6**.

8.0 RECOMMENDATIONS

8.1 That Members recommend to the County Council

(a) the Treasury Management Policy Statement as attached as **Appendix A**;

(b) the Annual Treasury Management and Investment Strategy for 2015/16 as detailed in **Appendix B** and in particular;

(i) an authorised limit for external debt of £398.7m in 2015/16;

(ii) an operational boundary for external debt of £378.7m in 2015/16;

(iii) a borrowing limit on fixed interest rate exposure of 60% to 100% of outstanding principal sums and a limit on variable interest rate exposure of 0% to 40% of outstanding principal sums;

(iv) borrowing from the money market for capital purposes is to be limited to 30% of external debt outstanding at any one point in time;

(v) an investment limit on fixed interest rate exposure of 0% to 30% of outstanding principal sums and a limit on variable interest rate exposure of 70% to 100% of outstanding principal sums;

(vi) a limit of £20m of the total cash sums available for investment (both in house and externally managed) to be invested in Non Specified Investments over 364 days;

(vii) a 10% cap on capital financing costs as a proportion of the annual Net

Revenue Budget;

(viii) a Minimum Revenue Provision (MRP) policy for debt repayment to be charged to Revenue in 2014/15 as set out in **Section 11** of **Appendix B**;

(ix) the Corporate Director – Strategic Resources to report to the County Council if and when necessary during the year on any changes to this Strategy arising from the use of operational leasing, PFI or other innovative methods of funding not previously approved by the County Council;

(c) that the Audit Committee be invited to review **Appendices A and B** referred to in (a) and (b) above and submit any proposals to the Executive for consideration at the earliest opportunity.

GARY FIELDING
Corporate Director – Strategic Resources

Central Services, County Hall, Northallerton
27 January 2015

Background Documents

CIPFA Code of Practice on Treasury Management in the Public Sector

CIPFA The Prudential Code for Capital Finance in Local Authorities

CLG Guidance on Local Government Investments

CLG Guidance on Minimum Revenue Provision

Contact: Peter Yates (01609) 532119

APPENDIX A

NORTH YORKSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1.0 **BACKGROUND**

1.1 The County Council has adopted the **CIPFA Code of Practice on Treasury Management in the Public Services** as updated in 2011. This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.

1.2 The CIPFA Code of Practice on Treasury Management requires the County Council to adopt the following four clauses of intent:

(a) the County Council will create and maintain as the cornerstone for effective Treasury Management

(i) a strategic **Treasury Management Policy Statement** (TMPS) stating the policies, objectives and approach to risk management of the County Council to its treasury management activities;

(ii) a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs;

(b) the County Council (full Council and/or Executive) will receive reports on its Treasury Management policies, practices and activities including, as a minimum, an annual strategy and plan in advance of the year, a mid year review and an annual report after its close, in the form prescribed in the TMPs;

(c) the County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources who will act in accordance with the Council's TMPS, TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management;

(d) the County Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategies and Policies.

1.3 The **CIPFA Prudential Code for Capital Finance in Local Authorities** (updated in 2011) and the terms of the **Local Government Act 2003**, together with 'statutory' Government Guidance, establish further requirements in relation to treasury management matters, namely

(a) the approval, on an annual basis, of a set of **Prudential Indicators**;

(b) the approval, on an annual basis, of an **Annual Treasury Management Strategy**, an **Annual Investment Strategy**, and an annual **Minimum Revenue Provision (MRP)** policy statement with an associated requirement that each is monitored on a regular basis with a provision to report as necessary both in-year and at the financial year end.

1.4 This current Treasury Management Policy Statement (TMPS) was approved by County Council on 18 February 2015.

2.0 TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

2.1 Based on the requirements detailed in **paragraph 1.2 (a) (i)** above a TMPS stating the policies and objectives of the treasury management activities of the County Council is set out below.

2.2 The County Council defines the policies and objectives of the treasury management activities of the County Council as follows:-

(a) the management of the County Council'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;

(b) the identification, monitoring and control of risk will be the prime criteria by which the effectiveness of the treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the County Council and any financial instrument entered into to manage these risks;

(c) effective treasury management will provide support towards the achievement of the business and service objectives of the County Council as expressed in the Council Plan. The County Council is committed to the principles of achieving value for many in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

2.3 As emphasised in the Treasury Management Code of Practice, responsibility for risk management and control of Treasury Management activities lies wholly with the County Council and all officers involved in Treasury Management activities are explicitly required to follow Treasury Management policies and procedures.

3.0 TREASURY MANAGEMENT PRACTICES (TMPs)

3.1 As referred to in **paragraph 1.2 (a) (ii)** above the CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) which:

(a) set out the manner in which the County Council will seek to achieve the policies and objectives set out in **paragraph 2.2** above; and

(b) prescribe how the County Council will manage and control those activities;

3.2 The CIPFA Code of Practice recommends 12 TMPs. These were originally approved by Members in March 2004 and have recently been updated in the light of the new Codes from CIPFA and Statutory Guidance from the Government. These updated documents were approved by the Audit Committee on 6 December 2012.

3.3 A list of the 12 TMPs is as follows:-

TMP 1	Risk management
TMP 2	Performance measurement
TMP 3	Decision-making and analysis
TMP 4	Approved instruments, methods and techniques
TMP 5	Organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP 6	Reporting requirements and management information arrangements
TMP 7	Budgeting, accounting and audit arrangements
TMP 8	Cash and cash flow management
TMP 9	Money Laundering
TMP 10	Training and qualifications
TMP 11	Use of external service providers
TMP 12	Corporate governance

4.0 PRUDENTIAL INDICATORS

4.1 The Local Government Act 2003 underpins the Capital Finance system introduced on 1 April 2004 and requires the County Council to “have regard to” the **CIPFA Prudential Code for Capital Finance in Local Authorities**. This Code which was last updated in November 2011, requires the County Council to set a range of Prudential Indicators for the next three years

(a) as part of the annual Budget process, and;

(b) before the start of the financial year;

to ensure that capital spending plans are affordable, prudent and sustainable.

4.2 The Prudential Code also requires appropriate arrangements to be in place for the monitoring, reporting and revision of Prudential Indicators previously set.

4.3 The required Prudential Indicators are as follows

- estimated ratio of capital financing costs to the Net Revenue Budget
- estimates of the incremental impact of capital investment decisions on the Council Tax
- Capital Expenditure - Actual and Forecasts
- Capital Financing Requirement

- Gross Debt and the Capital Financing Requirement
- authorised Limit for External Debt

  operational Boundary for External Debt
- Actual External Debt
- Adoption of the CIPFA Code of Practice for Treasury Management
- Interest Rate Exposures
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 364 days

4.4 The County Council will approve the Prudential Indicators for a three year period alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year. The Indicators will be monitored during the year and necessary revisions submitted as necessary via the Quarterly Performance and Budget Monitoring reports.

4.5 In addition to the above formally required Prudential Indicators, the County Council has also set two local ones as follows:

(a) to cap Capital Financing costs to 10% (11% up to 2013/14) of the net annual revenue budget; and

(b) a 30% limit on money market borrowing as opposed to borrowing from the Public Works Loan Board.

5.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY

5.1 A further implication of the Local Government Act 2003 is the requirement for the County Council to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy (which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments).

5.2 The Government's guidance on the Annual Investment Strategy, updated in 2009, states that authorities can combine the Treasury Management Strategy Statement and Annual Investment Strategy into one report. The County Council has adopted this combined approach.

5.3 Further statutory Government guidance, last updated with effect from April 2012, is in relation to an authority's charge to its Revenue Budget each year for debt repayment. A Minimum Revenue Provision (MRP) policy statement must be prepared each year and submitted to the full Council for approval before the start of the financial year.

5.4 The County Council's Annual Treasury Management and Investment Strategy will therefore cover the following matters:

- treasury limits in force which will limit the treasury risk and activities of the County Council
- Prudential and Treasury Indicators

- the current treasury position
- the Borrowing Requirement and Borrowing Limits
- borrowing Policy
- prospects for interest rates
- borrowing Strategy
- capping of capital financing costs
- review of long term debt and debt rescheduling
- minimum revenue provision policy
- annual investment strategy
- other treasury management issues
- arrangements for monitoring / reporting to Members

5.5 The County Council will approve this combined Annual Strategy alongside the annual Revenue Budget/Medium Term Financial Strategy at its February meeting each year.

6.0 **REVIEW OF THIS POLICY STATEMENT**

6.1 Under Financial Procedure Rule 14, the Corporate Director – Strategic Resources is required to periodically review this Policy Statement and all associated documentation. A review of this Statement, together with the associated annual strategies, will therefore be undertaken annually as part of the Revenue Budget process, together with a mid year review as part of the Quarterly Treasury Management reporting process and at such other times during the financial year as considered necessary by the Corporate Director – Strategic Resources.

Approved by County Council 18 February 2015

APPENDIX B

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2015/16

1.0 INTRODUCTION

1.1 Treasury Management is defined as

> "The management of the County Council'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".

1.2 The Local Government Act 2003, and supporting regulations, require the County Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators for the next three years to ensure that the County Council's capital investment plans are affordable, prudent and sustainable.

1.3 The Act also requires the County Council to set out its **Annual Treasury Management Strategy** for borrowing and to prepare an **Annual Investment Strategy** (as required by Investment Guidance issued subsequent to the Act) which sets out the County Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. For practical purposes these two strategies are combined in this document.

1.4 This Strategy document for 2015/16 therefore covers the following

- treasury limits in force which will limit the treasury risk and activities of the County Council (**Section 2**)
- Prudential indicators (**Section 3**)
- current treasury position (**Section 4**)
- borrowing requirement and borrowing limits (**Section 5**)
- borrowing policy (**Section 6**)
- prospects for interest rates (**Section 7**)
- borrowing strategy (**Section 8**)
- capping of capital financing costs (**Section 9**)
- review of long term debt and debt rescheduling (**Section 10**)
- minimum revenue provision policy (**Section 11**)
- annual investment strategy (**Section 12**)
- other treasury management issues (**Section 13**)
- arrangements for monitoring/reporting to Members (**Section 14**)

- summary of key elements of this strategy (**Section 15**)
- specified investments (**Schedule A**)
- non-specified investments (**Schedule B**)
- approved lending list (**Schedule C**)
- approved countries for investments (**Schedule D**)

1.5 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the County Council to produce a balanced Annual Revenue Budget. In particular, Section 32 requires a local authority to calculate its Budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby additional charges to the Revenue Budget arising from:-

(a) increases in interest and principal charges caused by increased borrowing to finance additional capital expenditure, and/or;

(b) any increases in running costs from new capital projects

are affordable within the projected revenue income of the County Council for the foreseeable future.

1.6 These issues are addressed and the necessary assurances provided by the Section 151 officer (the Corporate Director – Strategic Resources) in the 2015/16 Revenue Budget and Medium Term Financial Strategy report considered separately by the Executive on 3 February 2015 and approved by the County Council on 18 February 2015.

1.7 This Strategy document was approved by the County Council on 18 February 2015.

2.0 TREASURY LIMITS FOR 2015/16 TO 2017/18

2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the County Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the **Affordable Borrowing Limit**.

2.2 The County Council must have regard to the Prudential Code when setting the Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future Council Tax levels is acceptable. In practice, it is equivalent to the Authorised Limit as defined for the Prudential Indicators (therefore see **Section 3** below).

2.3 Whilst termed an Affordable Borrowing Limit, the spending plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability such as credit arrangements. The Affordable Borrowing Limit has to be set on a rolling basis for the forthcoming financial year and two successive financial years.

3.0 **PRUDENTIAL INDICATORS FOR 2015/16 TO 2017/18**

3.1 A separate Report incorporating an updated set of Prudential Indicators for the three year period to 31 March 2018, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities, was also approved by the County Council on 18 February 2015.

3.2 These Prudential Indicators include a number relating to external debt and treasury management that are appropriately incorporated into this Annual Treasury Management Strategy for 2015/16.

3.3 Full details of the Prudential Indicators listed below are contained in the separate **Revision of Prudential Indicators** report referred to in **paragraph 3.1** above.

3.4 The following Prudential Indicators are relevant for the purposes of setting an integrated Annual Treasury Management Strategy.

(a) **Estimated ratio of capital financing costs to the Net Revenue Budget**

(i) formally required indicator net of interest earned

2013/14 actual	7.7%
2014/15 probable	7.5%
2015/16 estimate	7.5%
2016/17 estimate	7.4%
2017/18 estimate	7.2%

(ii) Local Indicator capping capital financing costs to 10% of the annual Net Revenue Budget

2013/14 actual	8.2%
2014/15 probable	7.9%
2015/16 estimate	7.9%
2016/17 estimate	8.0%
2017/18 estimate	8.1%

(b) **Estimates of the incremental impact of capital investment decisions on the Council Tax requirement**

For a Band D Council Tax	
	£ p
2015/16 estimate	0.20
2016/17 estimate	0.87
2017/18 estimate	1.88

(c) **Capital Expenditure - Actual and Forecasts**

	£m
2013/14 actual	84.6
2014/15 probable	103.9
2015/16 estimate	108.6
2016/17 estimate	99.8
2017/18 estimate	79.3

(d) **Capital Financing Requirement (as at 31 March)**

	Borrowing £m	Other Long Term Liabilities £m	Total £m
31 March 2014 actual	369.9	5.8	375.7
31 March 2015 probable	363.2	5.8	369.0
31 March 2016 estimate	355.1	5.5	360.6
31 March 2017 estimate	345.7	5.3	351.0
31 March 2018 estimate	339.8	5.1	344.9

(e) **Gross Debt and the Capital Financing Requirement**

In order to ensure that over the medium term debt will only be for Capital purposes, the County Council should ensure that debt does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year, plus the estimate of any additional capital financing requirement for 2015/16 and the next two financial years.

The Corporate Director – Strategic Resources confirms that the County Council had no difficulty in meeting this requirement up to 2013/14 nor are any difficulties envisaged for the current or future financial years covered by this PI update to 2017/18. For subsequent years, however, there is the potential that the County Council may not be able to comply with this requirement as a result of the potential for the annual Minimum Revenue Provision (MRP) reducing the Capital Financing Requirement below gross debt. This potential situation will be monitored closely.

(f) **Authorised Limit for external debt**

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing Limit £m
2014/15	417.5	5.8	423.3
2015/16	393.2	5.5	398.7
2016/17	386.3	5.3	391.6
2017/18	405.2	5.1	410.3

(g) **Operational Boundary for external debt**

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing £m
2014/15	397.5	5.8	403.3
2015/16	373.2	5.5	378.7
2016/17	366.3	5.3	371.6
2017/18	385.2	5.1	390.3

(h) **Actual External Debt**

	Borrowing £m	Other Long Term Liabilities £m	Total £m
at 31 March 2014 actual	344.6	5.8	350.4
at 31 March 2015 probable	352.7	5.8	358.5
at 31 March 2016 estimate	345.0	5.5	350.5
at 31 March 2017 estimate	338.7	5.3	344.0
at 31 March 2018 estimate	333.8	5.1	338.9

(i) **Limit of Money Market Loans** (Local Indicator)

Borrowing from the money market for capital purposes is to be limited to 30% of the County Council's total external debt outstanding at any one point in time.

(j) **Adoption of CIPFA Code of Practice for Treasury Management in the Public Services**

The County Council agreed to adopt the latest updated Code issued in November 2011 on 15 February 2012.

(k) **Interest Rate exposures**

Borrowing	**%age of outstanding principal sums**
Limits on fixed interest rate exposures	60 to 100
Limits on variable interest rate exposures	0 to 40
Investing	
Limits on fixed interest rate exposures	0 to 30
Limits on variable interest rate exposures	70 to 100
Combined net borrowing/investment position	
Limits on fixed interest rate exposures	160 to 210
Limits on variable interest rate exposures	-60 to -110

(l) **Maturity Structure of borrowing**

The amount of projected borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Lower Limit %	Upper Limit %
under 12 months	0	50
12 months and within 24 months	0	15
24 months and within 5 years	0	45
5 years and within 10 years	0	75
10 years and within 25 years	10	100
25 years and within 50 years	10	100

(m) **Total principal sums invested for periods longer than 364 days**

Based on estimated levels of funds and balances over the next three years, the need for liquidity and day-to-day cash flow requirements, it is forecast that a maximum of £20m of 'core cash funds' available for investment can be held in aggregate in Non-Specified Investments over 364 days.

4.0 CURRENT TREASURY POSITION

4.1 The County Council's treasury portfolio position at 31 March 2014 consisted of:

Item	Principal £m	Average Rate at 31 March 2014 %
Debt Outstanding		
Fixed Rate funding		
PWLB	324.6	4.43
Variable Rate funding		
Market LOBO's	20.0	3.95
Total Debt Outstanding	344.6	4.40
Investments		
Managed in house	208.5	0.79
Net Borrowing	**136.1**	

5.0 BORROWING REQUIREMENT AND BORROWING LIMITS

5.1 The County Council's annual borrowing requirement consists of the capital financing requirement generated by capital expenditure in the year plus replacement borrowing for debt repaid less a prudent Minimum Revenue Provision charged to revenue for debt payment. These borrowing requirements are set out below.

Year	Basis	£m	Comment
2013/14	actual	0	No actual external borrowing was undertaken in 2013/14. The total requirement was £13.9m (including the rolled forward requirement from previous years) which was all financed internally from cash balances.
2014/15	requirement	32.9	Includes £13.9m capital borrowing requirement rolled over from 2013/14
2015/16	estimate	0.5	See **paragraphs 5.8 and 5.9**. The much higher figures for 2014/15 and 2017/18 include 'refinancing' significant PWLB and money market (LOBO) loan repayments in those years.
2016/17	estimate	1.3	
2017/18	estimate	26.5	

5.2 The Prudential Indicators set out in **paragraph 3.4** above include an Authorised Limit and Operational Boundary for external debt for each of the three years to 2017/18. These figures are referenced at **paragraphs 3.4(f) and 3.4(g)** respectively of this Strategy.

5.3 The **Operational Boundary** reflects an estimate of the most likely, prudent but not worst case scenario of external debt during the course of the financial year. The **Authorised Limit** is based on the same estimate as the **Operational Boundary** but allows sufficient headroom (£20m) over this figure to allow for unusual cash movements.

5.4 The **Authorised Limit** therefore represents the maximum amount of external debt which the County Council approves can be incurred at any time during the financial year and includes both capital and revenue requirements. It is not, however, expected that the County Council will have to borrow up to the Limit agreed.

5.5 The agreed **Operational Boundary** and **Authorised Limits** for external debt up to 2017/18 are derived as follows:

	Item	2014/15 probable £m	2015/16 estimate £m	2016/17 estimate £m	2017/18 estimate £m
	Debt outstanding at start of year				
	PWLB	324.6	352.7	345.0	338.7
	Other Institutions	20.0			
Sub-total		344.6	352.7	345.0	338.7
+	**External borrowing requirements**				
	Capital borrowing requirement	7.8	6.2	4.7	8.0
	Replacement borrowing	24.8	8.2	7.6	31.4
	MRP charged to Revenue etc	-14.7	-14.3	-14.1	-13.9
	Borrowing rolled over from 2013/14	13.9	-	-	-
	Internally funded variations	1.1	0.4	3.1	1.0
Sub-total		32.9	0.5	1.3	26.5
-	**External debt repayment**	-24.8	-8.2	-7.6	-31.4
=	**Forecast debt outstanding at end of year**	**352.7**	**345.0**	**338.7**	**333.8**
+	**Other 'IFRS' long term liabilities which are regarded as debt outstanding for PIs**				
	PFI	4.7	4.4	4.2	4.0
	Leases	1.1	1.1	1.1	1.1
=	**Total debt outstanding including 'other long term liabilities' (PI7)**	**358.5**	**350.5**	**344.0**	**338.9**
+	**Provision for**				
	Debt rescheduling	15.0	15.0	15.0	15.0
	Potential capital receipts slippage	5.0	5.0	5.0	5.0
	New borrowing taking place before principal repayments made	24.8	8.2	7.6	31.4
=	**Operational Boundary for year (PI7)**	**403.3**	**378.7**	**371.6**	**390.3**
+	**Provision to cover unusual cash movements**	20.0	20.0	20.0	20.0
=	**Authorised Limit for year (PI6)**	**423.3**	**398.7**	**391.6**	**410.3**

5.6 **Therefore the 2015/16 Limits are as follows:**

	£m
Operational Boundary for external debt	378.7
+ provision to cover unusual cash movements during the year	20.0
= Authorised Limit for 2015/16	**398.7**

5.7 All the debt outstanding estimates referred to in **paragraph 5.5** and the Prudential Indicators relating to external debt referred to in **paragraph 3.4** are based on annual capital borrowing requirements being taken externally and therefore increasing debt outstanding levels. As explained in **paragraphs 6.9 and 8.5 to 8.13**, consideration will be given however to delaying external borrowing throughout this period and funding annual borrowing requirements from revenue cash balances (i.e. running down investments). This likely outcome has the potential for achieving short term revenue savings and also has the benefit of reducing investment exposure to credit risk.

5.8 The annual borrowing requirements reported in the tables in **paragraphs 5.1 and 5.5** above (£32.9m in 2014/15, £0.5m in 2015/16, £1.3m in 2016/17 and £26.5m in 2017/18) are much lower than about £50m per annum up to 2010/11. This is because the 2011/12 Local Government Finance Settlement reflected all Government Capital approvals from 2011/12 being funded from Capital Grants rather than the previous mix of grants and borrowing approvals.

5.9 This change has had significant implications on the County Council's future Treasury Management operations and consequential Prudential Indicators in terms of:-

- reduced annual borrowing requirement and consequential debt levels from 2011/12 by about £33m per annum, which was the approximate total of such borrowing approvals in recent years
- the potential for the annual Minimum Revenue Provision (MRP) for debt repayment in the year resulting in a net debt repayment required with potential early repayments penalties (premiums)
- reduced capital financing costs (interest + MRP) from 2011/12
- significant impact on many Prudential Indicators (see **paragraph 3.4** above).

5.10 A key point in relation to debt levels is a proposal in the Revenue Budget report on today's agenda to set aside £10m in the 2015/16 revenue budget for debt repayment / capital financing purposes. Because the timing and which of the available options to be pursued have not been finalised the impact of this is not reflected in any of the debt projections in this strategy report. This also applies to the various Prudential Indicator covered in **section 3** of this strategy document and the separate Prudential Indicators report. If implemented in 2015/16 however the expected impact would be to reduce capital debt levels (internal and external) by £10m which would achieve recurring revenue savings in capital financing charges (repayment of principal) in subsequent years.

6.0 BORROWING POLICY

6.1 The policy of the County Council for the financing of capital expenditure is set out in Treasury Management Practice Note 3 which supports the Treasury Management Policy Statement.

6.2 In practical terms the policy is to finance capital expenditure by borrowing from the Public Works Loan Board (for periods up to 50 years) or the money markets (for periods up to 70 years) whichever reflects the best possible value to the County Council. Individual loans are taken out over varying periods depending on the perceived relative value of interest rates at the time of borrowing need and the need to avoid a distorted loan repayment profile. Individual loans are not linked to the cost of specific capital assets or their useful life span. Decisions to borrow are made in consultation with the County Council's Treasury Management Advisor (Capita Asset Services – Treasury Solutions).

6.3 Access to PWLB loans since 1 April 2004 is based on the Prudential Indicators and approved 'borrowing requirements' of individual authorities. Loans from the PWLB used to be very competitive with other forms of borrowing as they reflected prices on the gilt market for Government securities. They became less competitive however after 20 October 2010 following the Chancellor announcing that the PWLB would increase the margin above the Government's cost of borrowing to an average of 1% with immediate effect. Borrowing costs from the PWLB thus rose by about 0.7% across all periods. From November 2012 there was however a new 0.2% discount on loans from the PWLB under the prudential regime for local authorities providing improved information and transparency on their locally determined long term borrowing and associated capital spending. The County Council has provided this information each year and has qualified for the discount for any loans taken out up to 31 October 2015. Thereafter annual access to this discounted rate will be dependent on eligible local authorities providing the necessary information each year.

6.4 In addition to the PWLB the County Council can borrow from the money market (principally banks and building societies) and this is usually effected via a LOBO (Lender Option, Borrower Option). Such loans feature an initial fixed interest period followed by a specified series of calls when the lender has the option to request an interest rate increase. The borrower then has the option of repaying the loan (at no penalty) or accepting the higher rate.

6.5 The time period for LOBO borrowing by the County Council was increased to a maximum of 70 years (from 50 years) as part of the 2008/09 Strategy. In reality borrowing for 70 years is little different to taking a 50 year loan. The risk of taking such long period loans is that the County Council could potentially be locked into paying current interest rates on a loan for up to 70 years which would be disadvantageous if medium/long term rates subsequently fell below current rates at some point in the future. In practice, however, it is highly unlikely that such loans would ever run the full period because if at some point interest rates rise above the fixed rate agreed, the lender would request an increase and the County Council would have the option of repaying the loan.

6.6 Borrowing from the money market for capital purposes is limited to 30% of the County Council's total external debt outstanding at any one point in time (per **Prudential Indicator 9**).

6.7 The County Council will always look to borrow from the PWLB and money markets at the most advantageous rate. The Corporate Director – Finance and Central Services will monitor this situation closely throughout the year to determine whether at any stage, money market loans are more appropriate and advantageous to the County Council than PWLB loans.

6.8 At present all County Council long term borrowing is from the PWLB or via equally advantageous money market loans. However some short term money market borrowing may take place during the financial year in order to take advantage of low interest rates or to facilitate any debt restructuring exercise (see **paragraph 10** below).

6.9 Depending on the relationship between short term variable interest rates and the fixed term PWLB or LOBO rates for longer periods, some capital expenditure may be financed by short term borrowing from either the County Council's revenue cash balances or outside sources (see **paragraphs 8.5 to 8.13**).

Policy on borrowing in advance of need

6.10 The Prudential Code allows external 'borrowing for capital purposes' in advance of need within the constraints of relevant approved Prudential Indicators. Thus taking estimated capital borrowing requirements up to 31 March 2018 any time after 1 April 2015 is allowable under the Prudential Code. There are risks, however, in such borrowing in advance of need and the County Council has not taken any such borrowing to date and there are no current plans to do so. Furthermore the County Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

6.11 Any decision to borrow in advance of need will only be considered where there is

- a clear business case for doing so for the current Capital Plan
- to finance future debt maturity repayments
- value for money can be demonstrated
- the County Council can ensure the security of such funds which are subsequently invested

6.12 Thus in any future consideration of whether borrowing will be undertaken in advance of need the County Council will:

- ensure that there is a clear link between the Capital Plan and maturity of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- consider the impact of borrowing in advance (until required to finance capital expenditure) on temporarily increasing investment cash balances and the consequent increase in exposure to counter party risk and other risks, and the level of such risks given the controls in place to minimise them.

7.0 PROSPECTS FOR INTEREST RATES

7.1 Whilst recognising the continuing volatility and turbulence in the financial markets, the following paragraphs present a pragmatic assessment of key economic factors as they are likely to impact on interest rates over the next three years.

7.2 In terms of the key economic background and forecasts, looking ahead the current position is as follows:

(a) The UK Economy

- **Economic Growth** After strong UK GDP growth in 2013 at an annual rate of 2.7%, and then in 2014 (an annual rate of 3.2% to 30 June 2014), Q2 to 30 September has seen growth fall back to 0.7% in the quarter and to an annual rate of 2.6%. It therefore appears that growth has eased since the surge in the first half of 2014 leading to a downward revision of forecasts for 2015 and 2016, albeit that growth will still remain strong by UK standards. For this recovery to become more balanced and sustainable in the longer term, the recovery needs to move away from dependence on consumer expenditure and the housing market to exporting, and particularly of manufactured goods, both of which need to substantially improve on their recent lacklustre performance.

- This overall strong growth has resulted in unemployment falling much faster than expected. The MPC is now focusing on how quickly slack in the economy is being used up. It is also particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back significantly above the level of inflation in order to ensure that the recovery will be sustainable. There also needs to be a major improvement in labour productivity, which has languished at dismal levels since 2008, to support increases in pay rates. Unemployment is expected to keep on its downward trend and this is likely to eventually feed through into a return to significant increases in wage growth at some point during the next three years. However, just how much those future increases in pay rates will counteract the depressive effect of increases in Bank Rate on consumer confidence, the rate of growth in consumer expenditure and the buoyancy of the housing market, are areas that will need to be kept under regular review.

- Also encouraging has been the sharp fall in inflation (CPI), reaching 0.5% in December 2014, the lowest rate since May 2000. Forward indications are that inflation is likely to remain under 1% for months to come.

- The return to strong growth has helped lower forecasts for the increase in Government debt over the last year but monthly public sector deficit figures during 2014 have disappointed until November. The autumn statement, therefore, had to revise the speed with which the deficit is forecast to be eliminated.

(b) Global Economy

- **Eurozone (EZ).** The Eurozone is facing an increasing threat from weak or negative growth and from deflation. In November 2014, the inflation rate fell further, to reach a low of 0.3%. However, this is an average for all EZ countries and includes some countries with negative rates of inflation. Accordingly, the ECB took some rather limited action in June and September 2014 to loosen monetary policy in order to promote growth. It now appears likely that the ECB will embark on full quantitative easing (purchase of EZ country sovereign debt) in early 2015.

- Concern in financial markets for the Eurozone subsided considerably after the prolonged crisis during 2011-2013. However, sovereign debt difficulties have not gone away and major issues could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise for some countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. The ECB's pledge in 2012 to buy unlimited amounts of bonds of countries which ask for a bailout has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (2013 figures) of Greece 180%, Italy 133%, Portugal 129%, Ireland 124% and Cyprus 112%, remain a cause of concern, especially as some of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are likely to continue to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US.
- Anti-austerity party Syriza won Greece's general election on 25 January 2015 putting the country on a possible collision course over the EU and its massive bailout. Greece has essentially rejected a core policy for dealing with The Eurozone crisis as devised by Brussels and Berlin and this is likely to increase economic uncertainty across Europe. If this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strengthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries which have high unemployment rates. There are also major concerns as to whether the governments of France and Italy will effectively implement austerity programmes and undertake overdue reforms to improve national competitiveness. These countries already have political parties with major electoral support for anti EU and anti austerity policies. Any loss of market confidence in either of the two largest Eurozone economies after Germany would present a huge challenge to the resources of the ECB to defend their debt.
- **USA.** The U.S. Federal Reserve ended its monthly asset purchases in October 2014. GDP growth rates (annualised) for Q2 and Q3 of 4.6% and 5.0% have been stunning and hold great promise for strong growth going forward. It is therefore confidently forecast that the first increase in the Fed. rate will occur by the middle of 2015.

- **China.** Government action in 2014 to stimulate the economy appeared to be putting the target of 7.5% growth within achievable reach but recent data has indicated a marginally lower outturn for 2014, which would be the lowest rate of growth for many years. There are also concerns that the Chinese leadership has only started to address an unbalanced economy which is heavily over dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit, which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.
- **Japan.** Japan is causing considerable concern as the increase in sales tax in April 2014 has suppressed consumer expenditure and growth to the extent that it has slipped back into recession in Q2 and Q3. The Japanese government already has the highest debt to GDP ratio in the world.

(c) Capita Asset Services Forward View

- Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data transpires over 2015. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

- The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

- The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.
- The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis. There is an increased risk that Greece could end up leaving the Euro but if this happens, the EZ now has sufficient fire walls in place that a Greek exit would have little immediate direct impact on the rest of the EZ and the Euro. It is therefore expected that there will be an overall managed, albeit painful and tortuous, resolution of any EZ debt crisis that may occur where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be weak at best for the next couple of years with some EZ countries experiencing low or negative growth, which will, over that time period, see an increase in total government debt to GDP ratios. There is a significant danger that these ratios

could rise to the point where markets lose confidence in the financial viability of one, or more, countries, especially if growth disappoints and / or efforts to reduce government deficits fail to deliver the necessary reductions. However, it is impossible to forecast whether any individual country will lose such confidence, or when, and so precipitate a sharp resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the larger countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

- Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

  → Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.

  → UK strong economic growth is weaker than we currently anticipate.

  → Weak growth or recession in the UK's main trading partners - the EU, US and China.

  → A resurgence of the Eurozone sovereign debt crisis.

  → Recapitalisation of European banks requiring more government financial support.

  → Monetary policy action failing to stimulate sustainable growth and to combat the threat of deflation in western economies, especially the Eurozone and Japan.

- The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

→ An adverse reaction by financial markets to the result of the UK general election in May 2015 and the economic and debt management policies adopted by the new government

→ ECB either failing to carry through on recent statements that it will soon start quantitative easing (purchase of government debt) or severely disappointing financial markets with embarking on only a token programme of minimal purchases which are unlikely to have much impact, if any, on stimulating growth in the EZ.

→ The commencement by the US Federal Reserve of increases in the central rate in 2015 causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities, leading to a sudden flight from bonds to equities.

→ A surge in investor confidence that a return to robust world economic growth is imminent, causing a flow of funds out of bonds into equities.

→ UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

7.3 The County Council has appointed Capita Asset Services as its treasury management advisor and part of their service is to assist in formulating a view on interest rates. By drawing together a number of current city forecasts for short term (Bank rate) and longer fixed interest rates a consensus view for bank rate, PWLB borrowing rates and short term investment rates is as follows:-

	Bank Rate	PWLB Borrowing Rates (including 0.2% discount (para. 6.3))				Short Term Investment Rates	
		5 year	10 year	25 year	50 year	3 Months	1 Year
	%	%	%	%	%	%	%
Mar 2015	0.50	2.20	2.80	3.40	3.40	0.50	0.90
June 2015	0.50	2.20	2.80	3.50	3.50	0.50	1.00
Sept 2015	0.50	2.30	3.00	3.70	3.70	0.60	1.10
Dec 2015	0.75	2.50	3.20	3.80	3.80	0.80	1.30
Mar 2016	0.75	2.60	3.30	4.00	4.00	0.90	1.40
June 2016	1.00	2.80	3.50	4.20	4.20	1.10	1.50
Sept 2016	1.00	2.90	3.60	4.30	4.30	1.10	1.60
Dec 2016	1.25	3.00	3.70	4.40	4.40	1.30	1.80
Mar 2017	1.25	3.20	3.80	4.50	4.50	1.40	1.90
June 2017	1.50	3.30	3.90	4.60	4.60	1.50	2.00
Sept 2017	1.75	3.40	4.00	4.70	4.70	1.80	2.30
Dec 2017	1.75	3.50	4.10	4.70	4.70	1.90	2.40
Mar 2018	2.00	3.60	4.20	4.80	4.80	2.00	2.60

7.4 Thus based on **paragraphs 7.2 and 7.3** above

Bank Rate

- UK growth prospects remain strong looking forward into 2015 and 2016
- thus bank rate currently set at 0.5% underpins investment returns and is not expected to start increasing until around late in 2015
- it is then expected to continue rising by further 0.25% increases reaching 2.00% by March 2018 (0.75% in March 2016 and 1.25% in March 2017)
- as economic forecasting remains difficult with so many external influences weighing on the UK, bank rate forecasts will be liable to further amendments depending on how economic data transpires in the future
- in addition there are significant potential risks from the Eurozone and from financial flows from emerging market in particular so continuing caution must be exercised in respect of all internet rate forecasts at present

PWLB Rates

- fixed interest PWLB borrowing rates are based on UK gilt yields
- the overall longer run trend for gild yields and PWLB rates is to rise due to the high volume of gilt issuance in the UK and of bond issuance in other major Western countries. Over time, an increase in investors' confidence in world economic recovery is also likely to compound this effect as recovery will further encourage investors to switch from bonds to equities
- there are however a number of downside and upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates
- PWLB rates are seen to be on a rising trend with a forecast to rise gradually throughout the next three years in all periods as follows:-

Period	March 2015	March 2018	Increase
	%	%	%
5 years	2.20	3.60	+ 1.40
10 years	2.80	4.20	+ 1.40
25 years	3.40	4.80	+ 1.40
50 years	3.40	4.80	+ 1.40

Short Term Investment Rates

- investment returns are likely to remain relatively low during 2015/16 and beyond
- returns are expected to increase along with bank rate increases
- suggested returns on investments placed for periods up to 100 days are 0.6% in 2015/16, 1.25% in 2016/17 and 1.75% in 2017/18

7.5 UK GDP growth surged during 2013 and the first half of 2014. Since then it appears to have subsided somewhat but still remains strong by UK standards and is expected to continue likewise into 2015 and 2016. There needs to be a significant rebalancing of the economy away from consumer spending to manufacturing, business investment and exporting in order for this recovery to become more firmly established. One drag on the economy has been that wage inflation has only recently started to exceed CPI inflation, so enabling disposable income and living standards to start improving. The plunge in the price of oil brought CPI inflation down to a low of 1.0% in November, the lowest rate since September 2002. Inflation is expected to stay around or below 1.0% for the best part of a year; this will help improve consumer disposable income and so underpin economic growth during 2015. However, labour productivity needs to improve substantially to enable wage rates to increase and further support consumer disposable income and economic growth. In addition, the encouraging rate at which unemployment has been falling must eventually feed through into pressure for wage increases, though current views on the amount of hidden slack in the labour market probably means that this is unlikely to happen early in 2015.

The US, the biggest world economy, has generated stunning growth rates of 4.6% (annualised) in Q1 2014 and 5.0% in Q2. This is hugely promising for the outlook for strong growth going forwards and it very much looks as if the US is now firmly on the path of full recovery from the financial crisis of 2008. Consequently, it is now confidently expected that the US will be the first major western economy to start on central rate increases by mid 2015.

The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- Greece: the general election on 25 January 2015 is likely to bring a political party to power which is anti EU and anti austerity. However, if this eventually results in Greece leaving the Euro, it is unlikely that this will directly destabilise the Eurozone as the EU has put in place adequate firewalls to contain the immediate fallout to just Greece. However, the indirect effects of the likely strenthening of anti EU and anti austerity political parties throughout the EU is much more difficult to quantify;

- As for the Eurozone in general, concerns in respect of a major crisis subsided considerably in 2013. However, the downturn in growth and inflation during the second half of 2014, and worries over the Ukraine situation, Middle East and Ebola, have led to a resurgence of those concerns as risks increase that it could be heading into deflation and prolonged very weak growth. Sovereign debt difficulties have not gone away and major concerns could return in respect of individual countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2015/16 and beyond;

- Borrowing interest rates have been volatile during 2014 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. The closing weeks of 2014 saw gilt yields dip to historically remarkably low levels after inflation plunged, a flight to quality from equities (especially in the oil sector), and from the debt and equities of oil producing emerging market countries, and an increase in the likelihood that the ECB will commence quantitative easing (purchase of EZ government debt) in early 2015. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

8.0 BORROWING STRATEGY 2014/15

8.1 Based on the interest rate forecast outlined in **Section 7** above, there is a range of potential options available for the Borrowing Strategy for 2015/16. Consideration will therefore be given to the following:

(a) the County Council is currently maintaining an under borrowed position. This means that the capital borrowing need (the Capital Financing Requirement) has not been fully funded with loan debt as cash supporting the authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is currently prudent as investment returns are low and counterparty risk remains relatively high;

(b) thus based on the analysis presented in **paragraph 7.3**, the cheapest borrowing will be internal borrowing achieved by continuing to run down cash balances and foregoing interest earned at historically low rates (see **paragraphs 8.5 to 8.13**). However in view of the overall forecast for long term borrowing rates to increase over the next few years, consideration will also be given to weighing the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking market loans at long term rates which will be higher in future years;

(c) long term fixed market loans at rates significantly below (0.25% to 0.5%) PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio. The current market availability of such loans is, however, very limited and is not expected to change in the immediate future;

(d) PWLB borrowing for periods under 10 years where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which would spread debt maturities away from a concentration in longer dated debt. The downside of such shorter term borrowing is the loss of long term stability in interest payments that longer term fixed interest rate borrowing provides;

(e) consideration will be given to PWLB borrowing by annuity and Equal Instalments of Principal (EIP) in addition to maturity loans, which have been preferred in recent years;

(f) as indicated in the table in **paragraph 7.3** PWLB rates are expected to gradually increase throughout the financial year so it would therefore be advantageous to time any new borrowing earlier in the year;

(g) borrowing rates continue to be relatively attractive and may remain relatively low for some time, thus the timing of any borrowing will need to be monitored carefully. There will also remain a 'cost of borrowing' with any borrowing undertaken that results in an increase in investments incurring a revenue loss between borrowing costs and investment returns.

8.2 Based on the PWLB rates set out in **paragraphs 7.3 and 7.4**, suitable trigger rates for considering new fixed rate PWLB or equivalent money market borrowing will be:

		%
–	5 year period	2.2
–	10 year period	2.8
–	25 year period	3.4
–	50 year period	3.4

The aim however would be to secure loans at rates below these levels if available.

8.3 The forecast rates and trigger points for new borrowing will be continually reviewed in the light of movements in the slope of the yield curve, the spread between PWLB new borrowing and early repayment rates, and any other changes that the PWLB may introduce to their lending policy and operations.

8.4 It is likely that the Municipal Bonds Agency currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the PWLB and the County Council intends to make use of this new source of borrowing as and when appropriate.

External -v- internal borrowing

8.5 The County Council's net borrowing figures (external borrowing net of investments) are significantly below the authority's capital borrowing need (Capital Financing Requirement – CFR) because of two main reasons

(a) a significant level of investments (cash balances – core cash plus cash flow generated) (**paragraph 8.8**);

(b) internally funded capital expenditure (**paragraph 8.6**).

The relative figures are referred to in **paragraphs 3.4 (d) and 3.4 (e)** of this report and covered in more detail in Prudential Indicators 4 and 5 in the separate Prudential Indicators report.

8.6 Such internal borrowing stood at £25.6m at 31 March 2014, principally as a result of funding company loans (see **paragraph 12.6**) from internal, rather than external borrowing, and not taking up any new debt for the 2011/12, 2012/13 and 2013/14 borrowing requirements. The level of this internal capital borrowing depends on a range of factors including:

(a) premature repayment of external debt;

(b) the timing of any debt rescheduling exercises;

(c) the timing of taking out annual borrowing requirements;

(d) policy considerations on the relative impact of financing capital expenditure from cash balances compared with taking new external debt with the balance of external and internal borrowing being generally driven by market conditions.

8.7 The County Council continues to examine the potential for undertaking further early repayment of some external debt in order to reduce the difference between the gross and net debt position. However the introduction by the PWLB of significantly lower repayment rates than new borrowing rates in November 2007 compounded by a considerable further widening of the difference between new borrowing and repayment rates in October 2010, has meant that large premiums would be incurred by such actions which could not be justified on value for money grounds. This situation will be monitored closely in case the differential is narrowed by the PWLB at some future dates.

8.8 This internal capital borrowing option is possible because of the County Council's cash balance with the daily average being £252.2m in 2013/14. This consisted of cash flow generated (creditors etc), core cash (reserves, balances and provisions etc) and cash managed on behalf of other organisations. Consideration does therefore need to be given to the potential merits of internal borrowing.

8.9 As 2015/16 is expected to continue as a year of historically low bank interest rates, certainly until later in the year, this extends the current opportunity for the County Council to continue with the current internal borrowing strategy.

8.10 Over the next three years investment rates are expected to be below long term borrowing rates. A value for money consideration would therefore indicate that value could be obtained by continuing avoiding/delaying some or all new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt. This would maximise short term savings but is not risk free.

8.11 The use of such internal borrowing, which runs down investments, also has the benefit of reducing exposure to low interest rates on investments, and the credit risk of counterparties.

8.12 In considering this option however, two significant risks to take into account are

(a) the implications of day to day cash flow constraints, and;

(b) short term savings by avoiding/delaying new long external borrowing in 2015/16 must be weighed against the loss of longer term interest rate stability. Thus there is the potential for incurring long term extra costs by delaying unavoidable new external borrowing until later years by which time PWLB long term rates are forecast to be significantly higher.

8.13 Borrowing interest rates are on a rising trend. The policy of avoiding new borrowing by running down cash balances has served the County Council well in recent years. However this needs to be carefully reviewed and monitored to avoid incurring even higher borrowing costs which are now looming even closer for authorities who will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt in the near future.

8.14 **The general strategy for this "Internal Capital Financing" option will therefore be to continue to actively consider and pursue this approach on an ongoing basis in order to reduce the difference between the gross and net debts levels (paragraph 8.5) together with achieving short term savings and mitigating the credit risk incurred by holding investments in the market. Bearing in mind paragraph 8.12 however this policy will be carefully reviewed and monitored on an on-going basis.**

Overall Approach to Borrowing in 2015/16

8.15 Given the market conditions, economic background and interest rate forecasts set out in **paragraph 7** above, caution will be paramount within the County Council's 2015/16 Treasury Management operations. The Corporate Director –Strategic Resources will monitor the interest rates closely and adopt a pragmatic approach to changing circumstances – any key strategic decision that deviates from the Borrowing Strategy outlined above will be reported to the Executive at the next available opportunity.

Sensitivity of the Strategy

8.16 The main sensitivities of the Strategy are likely to be the two scenarios below. The Corporate Director – Strategic Resources will, in conjunction with the County Council's Treasury Management Advisor, continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a significant change of market view:

(a) *if it is felt that there was a significant risk of a sharp fall in both long and short term rates,* (e.g. due to a marked increase of risks around the relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered;

(b) *if it were felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast* (perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks), then the portfolio position will be re-appraised with the likely action that fixed rate funding will be taken whilst interest rates are still lower than they will be in the next few years.

8.17 As mentioned, however, in **paragraphs 8.5 to 8.13**, the likely outcome will be to delay external borrowing in 2015/16 and continue to fund the year's borrowing requirement together with that for 2011/12, 2012/13 and 2013/14 from internal sources (ie running down the investment of cash balances). This has the potential for achieving short term revenue savings in 2015/16 and also has the benefit of reducing investment exposure to credit risk.

9.0 CAPPING OF CAPITAL FINANCING COSTS

9.1 During the preparation of an earlier Revenue Budget/Medium Term Financial Strategy concerns were expressed about the possible ongoing impact on the annual Net Revenue Budget of capital expenditure generated either by government borrowing approvals or approved locally under the Prudential Borrowing regime.

9.2 As a result Members approved a local policy to cap capital financing charges as a proportion of the annual Net Revenue Budget. This cap was set at 10% in 2015/16 (previously 11%) which accommodates existing Capital Plan requirements and will act as a regulator if Members are considering expanding the Capital Plan using Prudential Borrowing. Members do of course have the ability to review the cap at any time but this would have to be done in the light of its explicit impact on the Revenue Budget/Medium Term Financial Strategy.

9.3 The relationship between levels of capital expenditure and the consequential capital financing costs that they generate is demonstrated in the following table.

Year	Forecast Annual Net Budget (ANB) £m	Budgeted Capital Financing Costs £m	Costs as a %age of ANB %	1% of ANB £m	Potential Capital Spend from 1% on ANB £m
	(a)	(b)	(c)	(d)	(e)
2014/15	373.0	29.3	7.9	3.7	
2015/16	363.3	28.5	7.9	3.6	43.0
2016/17	358.4	28.6	8.0	3.6	
2017/18	355.0	28.7	8.1	3.6	
			(b÷a)	(a/100)	

9.4 The above table reflects the following

- the impact of the Local Government Finance Settlement for 2015/16 in terms of:

  (a) a changed 'forecast annual net budget' since 2011/12 reflecting former specific grants being rolled into general formula grant which has the effect of increasing the 'net budget requirement' and continuing grant cuts which result in a reduced 'net revenue budget'.

  (b) significantly reduced borrowing requirements and consequential reduced capital financing costs resulting from all Government capital approvals from 2011/12 being funded from grants rather than the previous mix of grant and supported borrowing approvals.

- budgeted capital financing costs include interest on external debt plus lost interest earned on internally financed capital expenditure, together with a prudent Minimum Revenue Provision for debt repayment

9.5 In addition to showing explicitly the direct link between the level of capital spend and impact on the Revenue Budget to date, the table also includes an estimate of the impact that planned levels of future capital expenditure (based on the current Capital Plan) will have on the proportion of the Annual Revenue Budget that will be required to meet the consequential capital financing costs (see **column (c)**).

9.6 The table also shows, at **column (e)**, how much additional capital spend a 1% increase in the annual Budget **(column (d)**) will support.

10.0 REVIEW OF LONG TERM DEBT AND DEBT RESCHEDULING

10.1 The long term debt of the County Council is under continuous review.

10.2 The rescheduling of debt involves the early repayment of existing debt and its replacement with new borrowing. This can result in one-off costs or benefits called, respectively, premiums and discounts. These occur where the rate of the loan repaid varies from comparative current rates. Where the interest rate of the loan to be repaid is higher than the current rates, a premium is charged by the PWLB for repayment. Where the interest rate of the loan to be repaid is lower than the current rate, a discount on repayment is paid by the PWLB.

10.3 Discussions with the County Council's Treasury Management Advisor about the long term financing strategy are ongoing and any debt rescheduling opportunity will be fully explored.

10.4 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which was compounded in October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration has to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing. However, some interest savings might still be achievable through using LOBO (Lenders Option Borrowers Option) loans and other market loans, in rescheduling exercises rather than using PWLB borrowing as the source of replacement financing. An issue in relation to such PWLB/LOBO rescheduling however is that only a proportion of the County Council's debt portfolio should consist of money market loans (30% of total debt outstanding – see **paragraph 6.6**) which limits the extent of such rescheduling. Also unlike PWLB loans which can be rescheduled at regular intervals, once a LOBO loan has been taken, future rescheduling opportunities are more limited.

10.5 As short term borrowing rates are expected to be considerably cheaper than longer term rates throughout 2015/16, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred), their short term nature and the likely costs of refinancing those short term loans once they mature, compared to the current rates of longer term debt in the existing debt portfolio.

10.6 Consideration will also be given to indentify if there is any residual potential left for making savings by running down investment balances by repaying debt prematurely as short term rates on investments are likely to be lower than rates paid on currently held debt. However, this will need careful consideration in light of the debt repayment premiums.

10.7 The reasons for undertaking any rescheduling will include:

(a) the generation of cash savings at minimum risk;

(b) in order to help fulfil the Borrowing Strategy outlined in **Section 8** above, and;

(c) in order to enhance the balance of the long term portfolio (ie amend the maturity profile and/or the balance of volatility).

10.8 Members will appreciate that with long term debt of £344.6m at 31 March 2014 (see **paragraph 4.5** of accompanying report) and with an annual interest cost to the Revenue Budget of about £14m the savings or additional costs, attached to even a small interest rate variation can be significant. To put this into context for every 0.1% that the interest rate can be reduced it saves £0.35m on interest charges in the Revenue Budget. Any proposals to restructure debt or change the policy laid out earlier in this Strategy, therefore demand careful attention. Any debt rescheduling will, however, be in accordance with the Borrowing Strategy position outlined in **Section 8** above.

10.9 No new debt rescheduling activities have been undertaken by the County Council in 2014/15 to date with none being expected during the remainder of the financial year.

11.0 MINIMUM REVENUE PROVISION (MRP) POLICY 2015/16

11.1 The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment was replaced in February 2008 with more flexible statutory guidance which came into effect from 2008/09.

11.2 The new, and simpler, statutory duty (Statutory Instrument 2008) is that a local authority shall determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4% of the Capital Financing Requirement (CFR); the CFR consists of external debt plus capital expenditure financed by borrowing from internal sources (surplus cash balances).

11.3 To support the statutory duty the Government also issued fresh guidance in February 2008 which requires that a Statement on the County Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate. The County Council are therefore legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DCLG guidance on Investments.

11.4 The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the County Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the asset created by the capital expenditure is estimated to provide benefits (ie estimated useful life of the asset being financed). The previous system of 4% MRP did not necessarily provide that link.

11.5 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this Annual Treasury Management Strategy.

11.6 The move to International Financial Reporting Standards (IFRS) from 2010/11 involves Private Finance Initiative (PFI) contracts and some leases (being reclassified as finance leases instead of operating leases) coming onto Local Authority Balance Sheets as long term liabilities. This accounting treatment impacts on the CFR mentioned in **paragraph 11.2** above with the result that an annual MRP provision is required for PFI contracts and certain leases.

To ensure that this change has no overall financial impact on local authority budgets, the Government updated their "Statutory MRP Guidance" with effect from 31 March 2010. This updated Guidance allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments to PFI Operators and the implications of this are reflected in the County Council's MRP policy for 2015/16 as set out in **paragraph 11.8** below.

11.7 The 'Statutory MRP Guidance' was again updated from 1 April 2012 but the amendments relate only to those authorities with responsibility for housing. MRP guidance remained the same for all other authorities.

11.8 The County Council's MRP policy is based on the Government's Statutory Guidance and following a review of this policy, no changes are considered necessary and the policy for 2015/16 is therefore as follows:-

(a) for all **capital expenditure incurred before 1 April 2008**, MRP will be based on 4% of the Capital Financing Requirement (CFR) at that date. This will include expenditure supported by Government borrowing approvals and locally agreed Prudential Borrowing up to 31 March 2008. This is in effect a continuation of the old MRP regulations for all capital expenditure up to 31 March 2008 that has been financed from borrowing;

(b) for **capital expenditure incurred after 1 April 2008 which is supported by Government Borrowing approvals**, MRP to be based on 4% of such sums as reflected in subsequent CFR updates. This reflected the principle that the Revenue Support Grant (RSG) formula for supported borrowing approvals would still be calculated on this basis. It should be noted however that as part of the 2011/12 Local Government Finance Settlement, no supported borrowing approvals have been issued for the period after 2010/11 and the RSG formula was frozen as part of the 2013/14 introduction of retained local Business Rates;

(c) for **locally agreed Prudential Borrowing on capital expenditure incurred after 1 April 2008**, MRP will be calculated based on equal annual instalments over the estimated useful life of the asset for which the borrowing is undertaken. This method is a simpler alternative to depreciation accounting.

In view of the variety of different types of capital expenditure incurred by the County Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure, and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be 25 years for buildings, 50 years for land, and 5 to 7 years for vehicles, plant and equipment. To the extent that the expenditure does not create a physical asset (eg capital grants and loans), and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the County Council.

However in the case of long term debtors arising from loans or other types of capital expenditures incurred by the County Council which will be repaid under separate arrangements (eg loans to NYnet and Yorwaste), there will be no MRP made. The County Council is satisfied that a prudent provision will be achieved after exclusion of these capital expenditure items.

This approach also allows the County Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

(d) for **"on balance sheet" PFI schemes**, MRP will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for **finance leases**, MRP will be equivalent to the annual rental payable under the lease agreement.

11.9 Therefore the County Council's total MRP provision will be the sum of (a) + (b) + (c) + (d) (as defined above) which is considered to satisfy the prudent provision requirement. Based on this policy, total MRP in 2015/16 will be about £14.6m (including PFI and finance leases). This excludes however a potential additional MRP charge in 2015/16 as described in **paragraph 5.10**

11.10 An annual review of the County Council's MRP Policy will be undertaken and reported to Members as part of this Annual Treasury Management Strategy.

12.0 ANNUAL INVESTMENT STRATEGY

Background

12.1 Under the Local Government Act 2003 the County Council is required to have regard to Government Guidance in respect of the investment of its cash funds. This Guidance was revised with effect from 1 April 2010. The Guidance leaves local authorities free to make their own investment decisions, subject to the fundamental requirement of an Annual Investment Strategy being approved by the County Council before the start of the financial year.

12.2 This Annual Investment Strategy must define the investments the County Council has approved for prudent management of its cash balances during the financial year under the headings of **specified investments** and **non specified investments**.

12.3 This Annual Investment Strategy therefore sets out

- revisions to the Annual Investment Strategy (**paragraph 12.4**);
- the Investment Policy (**paragraph 12.5**);

- the policy regarding loans to companies in which the County Council has an interest (**paragraph 12.6**);
- specified and non specified investments (**paragraph 12.7**);
- Creditworthiness Policy - security of capital and the use of credit ratings (**paragraph 12.8**);
- the Investment Strategy to be followed for 2015/16 (**paragraph 12.9**);
- investment reports to members (**paragraph 12.10**);
- investment of money borrowed in advance of need (**paragraph 12.11**);
- investment (and Treasury Management) training (**paragraph 12.12**);

Revisions to the Annual Investment Strategy

12.4 In addition to this updated **Investment Strategy,** which requires approval before the start of the financial year, a revised Strategy will be submitted to County Council for consideration and approval under the following circumstances:

(a) significant changes in the risk assessment of a significant proportion of the County Council's investments;

(b) any other significant development(s) that might impact on the County Council's investments and the existing strategy for managing those investments during 2015/16.

Investment Policy

12.5 The parameters of the Policy are as follows:

(a) the County Council will have regard to the Government's Guidance on Local Government Investments as revised with effect from 1 April 2010, and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes;

(b) the County Council's investment policy has two fundamental objectives;

- the security of capital (protecting the capital sum from loss); and then
- the liquidity of its investments (keeping the money readily available for expenditure when needed)

(c) the County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments;

(d) the borrowing of monies purely to invest or lend and make a return is unlawful and the County Council will not engage in such activity;

(e) investment instruments for use in the financial year listed under **specified** and **non-specified investment** categories (see **paragraph 12.7**);

(f) counterparty limits will be set through the County Council's Treasury Management Practices Schedules.

Policy regarding loans to companies in which the County Council has an interest

12.6 (a) the County Council's general investment powers under this Annual Treasury Management and Investment Strategy come from the Local Government Act 2003 (Section 12). Under this Act a local authority has the power to invest for any purpose relevant to its functions or for the purpose of the prudent management of its financial affairs

(b) in addition to investment, the County Council has the power to provide loans and financial assistance to Limited Companies under the Localisation Act 2011 (and also formally under the general power of wellbeing in the Local Government Act 2000) which introduced a general power of competence for authorities (to be exercised in accordance with their general public law duties)

(c) any such loans to limited companies by the County Council, will therefore be made under these powers. They will not however be classed as investments made by the County Council and will not impact on this Investment Strategy. Instead they will be classed as capital expenditure by the County Council under the Local Authorities (Capital Finance and Accounting) Regulations 2003, and will be approved, financed and accounted for accordingly

(d) at present the County Council has made loans to two companies in which it has an equity investment (ie Yorwaste and NYnet). In both cases loan limits are set, and reviewed periodically, by the Executive

Specified and non-specified Investments

12.7 Based on Government Guidance as updated from 1 April 2010.

(a) investment Instruments identified for use in the forthcoming financial year are listed in the Schedules attached to this Strategy under the **specified** and **non-specified** Investment categories;

(b) all **specified** Investments (see **Schedule A**) are defined by the Government as options with "relatively high security and high liquidity" requiring minimal reference in investment strategies. In this context, the County Council has defined Specified Investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality;

(c) **Non-specified** investments (see **Schedule B**) attract a greater potential of risk. As a result, a maximum local limit of 20% of "core cash" funds available for investment has been set which can be held in aggregate in such investments;

(d) for both **specified** and **non-specified** investments, the attached Schedules indicate for each type of investment:-

- the investment category
- minimum credit criteria
- circumstances of use
- why use the investment and associated risks
- maximum % age of total investments
- maximum maturity period

(Non-Specified only)

(e) there are other instruments available as Specified and Non-Specified investments which the County Council will NOT currently use. Examples of such investments are:-

Specified Investments	- Commercial Paper - Gilt funds and other Bond Funds - Treasury Bills
Non-Specified Investments	- Sovereign Bond issues - Corporate Bonds - Floating Rate notes - Equities - Open Ended Investment Companies - Derivatives

A proposal to use any of these instruments would require detailed assessment and be subject to approval by Members as part of this Strategy. Under existing scrutiny arrangements, the County Council's Audit Committee will also look at any proposals to use the instruments referred to above.

Creditworthiness Policy – Security of Capital and the use of credit ratings

12.8 The financial markets have experienced a period of considerable turmoil since 2008 and as a result attention has been focused on credit standings of counterparties with whom the County Council can invest funds.

It is paramount that the County Council's money is managed in a way that balances risk with return, but with the overriding consideration being given to the security of the invested capital sum followed by the liquidity of the investment. The Approved Lending List will therefore reflect a prudent attitude towards organisations with whom funds may be deposited.

The rationale and purpose of distinguishing specified and non-specified investments is detailed in **paragraph 12.7** above. Part of the definition for a Specified investment is that it is an investment made with a body which has been awarded a high credit rating with maturities of no longer than 364 days.

It is, therefore, necessary to define what the County Council considers to be a "high" credit rating in order to maintain the security of the invested capital sum.

The methodology and its application in practice will, therefore, be as follows:-

(a) the County Council will rely on credit ratings published by the three credit rating agencies (Fitch, Moody's and Standard & Poor's) to establish the credit quality (ability to meet financial commitments) of counterparties (to whom the County

Council lends) and investment schemes. Each agency has its own credit rating components to complete their rating assessments. These are as follows:

Fitch Ratings

Long Term	-	generally cover maturities of over five years and acts as a measure of the capacity to service and repay debt obligations punctually. Ratings range from AAA (highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations)
Short Term	-	cover obligations which have an original maturity not exceeding one year and place greater emphasis on the liquidity necessary to meet financial commitments. The ratings range from F1+ (the highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations)

Moody's Ratings

Long Term	-	an opinion of the relative credit risk of obligations with an original maturity of one year or more. They reflect both the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Ratings range from Aaa (highest quality, with minimal credit risk) to C (typically in default, with little prospect for recovery of principal or interest)
Short Term	-	an opinion of the likelihood of a default on contractually promised payments with an original maturity of 13 months or less. Ratings range from P-1 (a superior ability to repay short-term debt obligations) to P-3 (an acceptable ability to repay short-term obligations)

Standard & Poor's Ratings

Long Term	-	considers the likelihood of payment. Ratings range from AAA (best quality borrowers, reliable and stable) to D (has defaulted on obligations)
Short Term	-	generally assigned to those obligations considered short-term in the relevant market. Ratings range from A-1 (capacity to meet financial commitment is strong) to D (used upon the filing of a bankruptcy petition).

In addition, all three credit rating agencies produce a Sovereign Rating which assesses a country's ability to support a financial institution should it get into difficulty. The ratings are the same as those used to measure long term credit.

(b) the County Council will review the "ratings watch" and "outlook" notices issued by all three credit rating agencies referred to above. An agency will issue a "watch", (notification of likely change), or "outlook", (notification of a possible longer term change), when it anticipates that a change to a credit rating may occur in the forthcoming 6 to 24 months. The "watch" or "outlook" could reflect either a positive (increase in credit rating), negative (decrease in credit rating) or developing (uncertain whether a rating may go up or down) outcome;

(c) no combination of ratings can be viewed as entirely fail safe and all credit ratings, watches and outlooks are monitored on a daily basis. This is achieved through the use of Capita Asset Services creditworthiness service. This employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The credit ratings of counterparties are then supplemented with the following overlays;

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the County Council to determine the duration for investments. The County Council will therefore use counterparties within the following durational bands:-

Colour	**Maximum Investment Duration**
Yellow	5 Years
Purple	2 Years
Orange	1
Blue	1 Year (UK nationalised / semi nationalised banks only)
Red	6 months
Green	100 days
No colour	No investments to be made

(d) given that a number of central banks/government have supported or are still supporting their banking industries in some way, the importance of the credit strength of the sovereign has become more important. The County Council will therefore also take into account the Sovereign Rating for the country in which an organisation is domiciled. As a result, only an institution which is domiciled in a country with a minimum Sovereign Rating of AA- from Fitch or equivalent would be considered for inclusion on the County Council's Approved Lending List (subject to them meeting the criteria above). Organisations which are domiciled in a Country whose Sovereign Rating has fallen below the minimum criteria will be suspended, regardless of their own individual score/colour. The list of countries that currently qualify using this credit criteria are shown in **Schedule D**. This list will be amended should ratings change, in accordance with this policy;

(e) in order to reflect current market sentiment regarding the credit worthiness of an institution the County Council will also take into account current trends within the Credit Default Swap (CDS) Market. Since they are a traded instrument they reflect the market's current perception of an institution's credit quality, unlike credit ratings, which often focus on a longer term view. These trends will be monitored through the use of Capita Asset Services creditworthiness service which compares the CDS Market position for each institution to the benchmark CDS Index. Should the deviation be great, then market sentiment suggests that there is a fear that an institution's credit quality will fall. Organisations with such deviations will be monitored and their standing reduced by one colour band (**paragraph 12.8 (c)**) as a precaution. Where the deviation is great, the organisation will be awarded 'no colour' until market sentiment improves. Where entities do not have an actively traded CDS spread, credit ratings are used in isolation;

(f) fully and part nationalised banks within the UK currently have credit ratings which are not as high as other institutions. This is the result of the banks having to have to accept external support from the UK Government However, due to this Central Government involvement, these institutions now effectively take on the credit worthiness of the Government itself (i.e. deposits made with them are effectively being made to the Government). This position is expected to take a number of years to unwind and would certainly not be done so without a considerable notice period. As a result, institutions which are significantly or fully owned by the UK Government will be assessed to have a high level of credit worthiness;

(g) all of the above will be monitored on a weekly basis through Capita Asset Services creditworthiness service with additional information being received and monitored on a daily basis should credit ratings change and/or watch/outlook notices be issued. Sole reliance will not be placed on the information provided by Capita Asset Services however. In addition the County Council will also use market data and information available from other sources such as the financial press and other agencies and organisations;

(h) in addition, the County Council will set maximum investment limits for each organisation which also reflect that institution's credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (i.e. Government ownership or being part of the UK Government guarantee of liquidity). These limits are as follows:-

Maximum Investment Limit	**Criteria**
£85m	UK "Nationalised / Part Nationalised" banks / UK banks with UK Central

	Government involvement
£20m to £75m	UK "Clearing Banks" and selected UK based Banks and Building Societies
£20m or £40m	High quality foreign banks

(i) should a score/colour awarded to a counterparty or investment scheme be amended during the year due to rating changes, market sentiment etc., the County Council will take the following action:-

- reduce or increase the maximum investment term for an organisation dependent on the revised score / colour awarded (in line with the boundaries and colours set in **paragraph 12.8(c)**)
- temporarily suspend the organisation from the Approved Lending List should their score fall outside boundary limits and not be awarded a colour
- seek to withdraw an investment as soon as possible, within the terms and conditions of the investment made, should an organisation be suspended from the Approved Lending List
- ensure all investments remain as liquid as possible, i.e. on instant access until sentiment improves.

(j) if a counterparty / investment scheme, not currently included on the Approved Lending List is subsequently upgraded, (resulting in a score which would fulfil the County Council's minimum criteria), the Corporate Director – Strategic Resources has the delegated authority to include it on the County Council's Approved Lending List with immediate effect;

(k) a copy of the current Approved Lending List, showing maximum investment and time limits is attached at **Schedule C**. The Approved Lending List will be monitored on an ongoing daily basis and changes made as appropriate. Given current market conditions, there continues to be a very limited number of organisations which fulfil the criteria for non specified investments. This situation will be monitored on an ongoing basis with additional organisations added as appropriate with the approval of the Corporate Director – Strategic Resources.

The Investment Strategy to be followed for 2015/16

12.9 Recognising the categories of investment available and the rating criteria detailed above

(a) the County Council currently manages all its cash balances internally;

(b) ongoing discussions are held with the County Council's Treasury Management Advisor on whether to consider the appointment of an external fund manager(s) or continue investing in-house – any decision to appoint an external fund manager will be subject to Member approval;

(c) the County Council's cash balances consist of two basic elements. The first element is **cash flow derived** (debtors/creditors/timing of income compared to expenditure profile). The second, **core element**, relates to specific funds (reserves, provisions, balances, capital receipts, funds held on behalf of other organisations etc.);

(d) having given due consideration to the County Council's estimated level of funds and balances over the next three financial years, the need for liquidity and day to day cash flow requirements it is forecast that a maximum of £20m of the overall balances can be prudently committed to longer term investments (e.g. between 1 and 3 years);

(e) investments will accordingly be made with reference to this core element and the County Council's ongoing cash flow requirements (which may change over time) and the outlook for short term interest rates (i.e. rates for investments up to 12 months);

(f) the County Council currently has no non-specified investments over 364 days;

(g) bank rate has been unchanged at 0.5% since March 2009 and underpins investment returns. It is not expected to start increasing until late in 2015;

The County Council will, therefore, avoid locking into long term deals while investment rates continue to be at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within a 'low risk' parameter. Thus no trigger rates will be set for longer term deposits (two or three years) but this position will be kept under constant review and discussed with the Treasury Management Advisor on a regular basis.

Based on current bank rate forecasts, as outlined above, an overall investment return of about 0.75% is likely in 2015/16, 1.25% in 2016/17 and 1.8% in 2017/18.

(h) for its cash flow generated balances the County Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies), 15 and 30 day accounts and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Investment Reports to Members

12.10 Reporting to Members on investment matters will be as follows:

(a) in-year investment reports will be submitted to the Executive as part of the Quarterly Performance and Budget Monitoring reports;

(b) at the end of the financial year a comprehensive report on the County Council's investment activity will be submitted to the Executive as part of the Annual Treasury Management Outturn report;

(c) periodic meetings between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee provide an opportunity to consider and discuss issues arising from the day to day management of Treasury Management activities.

(see **Section 14** for full details).

Investment of Money Borrowed in Advance of Need

12.11 The Borrowing Policy covers the County Council's policy on Borrowing in Advance of Spending Needs (**paragraph 6.10**).

Although the County Council has not borrowed in advance of need to date and has no current plans to do so in the immediate future, any such future borrowing would impact on investment levels for the period between borrowing and capital spending.

Any such investments would, therefore, be made within the constraints of the County Council's current Annual Investment Strategy, together with a maximum investment period related to when expenditure was expected to be incurred.

Treasury Management Training

12.12 The training needs of the County Council's staff involved in investment management (within the Corporate Accountancy arm of Integrated Finance in Central Services) are monitored, reviewed and addressed on an on-going basis and are discussed as part of the staff appraisal process. In practice most training needs are addressed through attendance at courses and seminars provided by CIPFA, the LGA and others on a regular ongoing basis.

The CIPFA Code also requires that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny (i.e. the Audit Committee). An in-house training course for Members (which was also attended by officers) was provided by Capita Asset Services – Treasury Solutions on 30 September 2013. Further training will be arranged as required. The training arrangements for officers mentioned in the paragraph above will also be available to Members.

13.0 OTHER TREASURY MANAGEMENT ISSUES

Policy on the use of External Treasury Management Service Providers

13.1 The County Council uses Capita Asset Services – Treasury Solutions as its external treasury management adviser. Capita provide a source of contemporary information, advice and assistance over a wide range of Treasury Management areas but particularly in relation to investments and debt administration.

13.2 Whilst the County Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, it fully accepts that responsibility for Treasury Management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon advice of the external service provider.

13.3 Capita Asset Services were re-appointed in July 2009 for three years, following a full tender exercise with the terms of appointment being documented. Following a review of their advice to date, and under the terms of the contract, this appointment was extended for a further two years to July 2014. A temporary extension to this contract since July 2014 was agreed because of the implications of the County Council starting to provide Treasury Management services to Selby DC who also have their own adviser. Thus going forward a single adviser for both authorities is being concluded and it is expected that a new contract will be in place with an external service provider from 1 April 2015. The value and quality of services being provided are monitored and reviewed on an ongoing basis.

The scheme of delegation and role of the section 151 officer in relation to Treasury Management

13.4 The Government's Investment Guidance (**paragraph 12.1**) requires that a local authority includes details of the Treasury Management schemes of delegation and the role of the Section 151 officer in the Annual Treasury Management/Investment Strategy.

13.5 The key elements of delegation in relation to Treasury Management are set out in the following Financial Procedure Rules (FPR):-

(a) **14.1** The Council adopts CIPFA's "Treasury Management in the Public Services Code of Practice 2011" (as amended) as described in Section 5 of the Code, and will have regard to the associated guidance notes;

(b) **14.2** The County Council will create and maintain as the cornerstone for effective Treasury Management

(i) a strategic Treasury Management Policy Statement (TMPS) stating the County Council's policies, objectives and approach to risk management of its treasury management activities;

(ii) a framework of suitable Treasury Management Practices (TMPs) setting out the manner in which the County Council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities. The Code recommends 12 TMPs;

(c) **14.3** The Executive and the full Council will receive reports on its Treasury Management policies, practices and activities including, as a minimum an Annual Treasury Management and Investment Strategy and associated report on Prudential Indicators in advance of the financial year;

(d) **14.4** The County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive, and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources (CD-SR), who will act in accordance with the Council's TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management;

(e) **14.5** The Executive will receive from the CD-SR a quarterly report on Treasury Management as part of the Quarterly Performance Monitoring report and an annual report on both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year;

(f) **14.6** The CD-SR will meet periodically with the portfolio holder for financial services, including assets, IT and procurement and such other Member of the Executive as the Executive shall decide to consider issues arising from the day to day Treasury Management activities;

(g) **14.7** The Audit Committee shall be responsible for ensuring effective scrutiny of the Treasury Management process;

(h) **14.8** The CD-SR shall periodically review the Treasury Management Policy Statement and associated documentation and report to the Executive on any necessary changes, and the Executive shall make recommendations accordingly to the County Council;

(i) **14.9** All money in the possession of the Council shall be under the control of the officer designated for the purposes of Section 151 of the Local Government Act 1972 (i.e. the Corporate Director - Strategic Resources).

13.6 The Treasury Management reporting arrangements in relation to the above are covered in more detail in **section 14**.

13.7 In terms of the Treasury Management role of the Section 151 officer (the Corporate Director – Strategic Resources), the key areas of delegated responsibility are as follows

- recommending clauses, treasury management policies and practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports to Members
- submitting budgets and budget variations to Members
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers

Operational Leasing

13.8 Up to 2004/05 the County Council used operational leasing to acquire plant and vehicles. The main reason was that such financing did not impact on the level of capital resources (capital receipts and Government borrowing approvals) otherwise available to the County Council. However because this rationale no longer applies under the Prudential Code there is now the option of undertaking additional unsupported borrowing to finance such items.

13.9 The option to finance by operational leasing is, of course, still available and therefore the use of leasing for periods greater than one year is approved within the schedule of Treasury Management Practices which support the County Council's Treasury Management Policy Statement. Furthermore the Financial Procedure

Rules of the County Council require that the Corporate Director – Strategic Resources shall undertake the negotiation of all leasing arrangements.

13.10 A detailed option appraisal on whether to operationally lease, finance lease or fund from borrowing is undertaken for all plant and vehicle requirements as it may be the case that the best value option will change over time (e.g. as market conditions fluctuate). Since 2004/05, options appraisals have resulted in purchases being financed from Prudential borrowing as well as operational leasing with consequential financing costs of both methods being recharged to Directorates. In 2013/14 acquisitions totalling £0.2m were financed from operational leasing and £0.7m financed from Prudential borrowing – a total of £0.9m. For 2014/15 the forecast outturn position is £2.0 m with £1.0m financed from operational leasing and £1.0m from Prudential Borrowing.

13.11 The capital value of plant, equipment and vehicles to be purchased in 2015/16 is estimated to be approximately £1m (£1m in 2014/15) and further option appraisals will be carried out during the year to determine whether financing should be through leasing or Prudential borrowing.

Other Issues

13.12 The County Council continues to monitor potential PFI opportunities and assess other innovative methods of funding and the Corporate Director – Strategic Resources will report any developments to Executive at the first opportunity.

14.0 ARRANGEMENTS FOR MONITORING / REPORTING TO MEMBERS

14.1 Taking into account the matters referred to in this Strategy, the monitoring and reporting arrangements in place relating to Treasury Management activities are now as follows:

(a) an annual report to Executive and County Council as part of the Budget process that sets out the County Council's **Treasury Management Strategy and Policy** for the forthcoming financial year;

(b) an annual report to Executive and County Council as part of the Budget process that sets the various **Prudential Indicators**, together with a mid year update of these indicators as part of the Q1 Performance Monitoring report submitted to the Executive (see **(d)** below);

(c) **annual outturn reports** to the Executive for both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year.

(d) a quarterly report on Treasury Matters to Executive as part of the **Quarterly Performance and Budget Monitoring** report;

(e) **periodic meetings** between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee to discuss issues arising from the day to day management of Treasury Management activities;

(f) copies of the reports mentioned in (a) to (d) above are provided to the **Audit Committee** who are also consulted on any proposed changes to the County Council's Treasury Management activities.

15.0 SUMMARY OF KEY ELEMENTS OF THIS STRATEGY

15.1 For the financial year 2015/16 the County Council approves the following:-

(a) an Authorised Limit for external debt of £398.7m in 2015/16;

(b) an Operational Boundary for external debt of £378.7m in 2015/16;

(c) a borrowing limit on fixed interest exposures of between 60% to 100% of outstanding principal sums and a limit on variable interest rate exposures of between 0 to 40% of outstanding principal sums;

(d) borrowing from the money market for capital purposes is to be limited to 30% of external debt outstanding at any one point in time;

(e) an investment limit on fixed interest exposures of 0 to 30% of outstanding principal sums and a limit on variable interest rate exposure of between 70% to 100% of outstanding principal sums;

(f) a limit of £20m of the total 'core' cash sums available for investment (both in house and externally managed) to be invested in Non-Specified investments over 364 days;

(g) a 10% cap on capital financing costs as a proportion of the annual Net Revenue Budget;

(h) a Minimum Revenue Provision (MRP) policy for debt repayment to be charged to Revenue in 2015/16 as set out in **Section 11**;

(i) the Corporate Director – Strategic Resources to report to the County Council if and when necessary during the year on any changes to this Strategy arising from the use of operational leasing, PFI or other innovative methods of funding.

GARY FIELDING
Corporate Director – Strategic Resources
27 January 2015

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2015/16 – SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of Use
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (Banks and Building Societies), including callable deposits with maturities less than 1 year	Organisations assessed as having “high credit quality” plus a minimum Sovereign rating of AA- for the country in which the organisation is domiciled	In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year		Fund Manager or In-house “buy and hold” after consultation with Treasury Management Advisor
Forward deals with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house
Money Market Funds i.e. collective investment scheme as defined in SI2004 No 534 (*These funds have no maturity date*)	Funds must be AAA rated	In-house After consultation with Treasury Management Advisor Limited to £20m
Gilts (with maturities of up to 1 year)	Government Backed	Fund Manager or In-house buy and hold after consultation with Treasury Management Advisor
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months (*Custodial arrangements required prior to purchase*)		After consultation with Treasury Management Advisor

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2015/16 – NON-SPECIFIED INVESTMENTS

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
Term Deposit with credit rated deposit takers (Banks & Building Societies), UK Government and other Local Authorities with maturities greater than 1 year	A) Certainty of return over period invested which could be useful for budget purposes B) Not Liquid, cannot be traded or repaid prior to maturity Return will be lower if interest rates rise after making deposit Credit risk as potential for greater deterioration of credit quality over a longer period	Organisations assessed as having "high credit quality" Plus A minimum Sovereign rating of AA- for the country in which an organisation is domiciled	In-house	100% of agreed maximum proportion (20%) of core cash funds that can be invested for more than 1 year (estimated £20m)	£5m	2 years subject to potential future review with a maximum of no longer than 5 years
Certificate of Deposit with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year *Custodial arrangements prior to purchase*	A) Attractive rates of return over period invested and in theory tradable B) Interest rate risk; the yield is subject to movement during life of CD which could negatively impact on its price		Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	£3m	
Callable Deposits with credit rated deposit takers (Banks & Building Societies) with	A) Enhanced Income – potentially higher return than using a term deposit with a similar maturity		To be used in-house after consultation with Treasury Management	50% of agreed proportion (20%) of core cash balance that can be	£5m	

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
maturities greater than 1 year	B) Not liquid – only borrower has the right to pay back the deposit; the lender does not have a similar call Period over which the investment will actually be held is not known at outset Interest rate risk; borrower will not pay back deposit if interest rates rise after the deposit is made		Advisor	invested for more than 1 year (£12.5m)		
Forward Deposits with a credit rated Bank or Building Society > 1 year (i.e. negotiated deal period plus period of deposit)	A) Known rate of return over the period the monies are invested – aids forward planning B) Credit risk is over the whole period, not just when monies are invested Cannot renege on making the investment if credit quality falls or interest rates rise in the interim period	Organisations assessed as having “high credit quality” Plus A minimum Sovereign rating of AA- for the country in which an organisation is domiciled	To be used in-house after consultation with the Treasury Management Advisor	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	£3m	2 years subject to potential future review with a maximum of no longer than 5 years
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI2004 No534) with maturities in	A) Excellent credit quality Relatively Liquid If held to maturity, yield is known in advance	AA or Government backed	In-house on a “buy and hold” basis after consultation with Treasury Management Advisor or use by Fund Managers		n/a	

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
excess of 1 year Custodial arrangements required prior to purchase	Enhanced rate in comparisons to gilts B) Interest rate risk; yield subject to movement during life off bond which could impact on price					
Bonds issued by Multilateral development banks (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	A) Excellent credit quality Relatively Liquid If held to maturity, yield is known in advance Enhanced rate in comparison to gilts B) Interest rate risk; yield subject to movement during life off bond which could negatively impact on price				£3m	
UK Government Gilts with maturities in excess of 1 year Custodial arrangements required prior to purchase	A) Excellent credit quality Liquid If held to maturity, yield is known in advance If traded, potential for capital appreciation	Government backed	Fund Manager	25% of greed proportion (20%) of core cash funds that can be invested for more than 1 year (£5m)	n/a	2 years subject to potential future review with a maximum of no longer

investment	A) Why use it? B) Associated Risks?	Security / Minimum Credit Rating	Circumstances of Use	Max % of overall investments or cash limits in cash category	Maximum investment with any one counterparty	Maximum Maturity Period
	B) Interest rate risk; yield subject to movement during life if the bond which could impact on price					than 5 years
Collateralised Deposit	A) Excellent credit quality B) Not liquid, cannot be traded or repaid prior to maturity Credit risk as potential for greater deterioration of credit quality over a longer period	Backed by collateral of AAA rated Local Authority LOBO's	In-house via money market broker or direct	100% of agreed proportion (20%) of core cash funds that can be invested for more than 1 year (£20m)	£5m	

APPROVED LENDING LIST 2015/16

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £20m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland	GBR	85.0	364 days	-	-
Natwest Bank	GBR				
Ulster Bank Ltd	GBR				
Bank of Scotland	GBR	85.0	364 days	-	-
Lloyds TSB	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK plc (includes Cater Allen)	GBR	40.0	6 months	-	-
Barclays Bank	GBR	75.0	6 months	-	-
HSBC	GBR	30.0	364 days		
Clydesdale Bank (trading as Yorkshire Bank)	GBR	30.0 (Shared with NAB)	Temporarily suspended	-	-
Goldman Sachs International Bank	GBR	40.0	3 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	3 months	-	-
High quality Foreign Banks					
National Australia Bank	AUS	30.0 (Shared with Clydesdale)	364 days	-	-
Commonwealth Bank of Australia	AUS	20.0	364 days		
Canadian Imperial Bank of Commerce	CAN	20.0	364 days	-	-
Deutsche Bank	DEU	20.0	3 months	-	-
Nordea Bank Finland	FIN	20.0	364 days	-	-
Credit Industriel et Commercial	FRA	20.0	6 months	-	-
BNP Paribas Fortis	FRA	20.0	6 months	-	-
Nordea Bank AB	SWE	20.0	364 days	-	-
Svenska Handelsbanken	SWE	40.0	364 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

* Based on data as 9 January 2015

APPROVED COUNTRIES FOR INVESTMENTS

Based on the lowest available rating

Sovereign Rating	Country
AAA	Australia Canada Denmark Germany Luxembourg Norway Singapore Sweden Switzerland
AA+	Finland Hong Kong Netherlands UK USA
AA	Abu Dhabi (UAE) France Qatar
AA-	Belgium Saudi Arabia

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

05 MARCH 2015

CORPORATE PROCUREMENT STRATEGY

Report from Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

1.1 To update Members on the revised Corporate Procurement Strategy, including the Strategy Action Plan and how it will be implemented.

2.0 BACKGROUND

2.1 The Council spends approximately £330m externally each year across both revenue and capital and it is the Council's responsibility to use this money in the best way possible to achieve its objectives, especially during these years of austerity.

2.2 Over recent years the procurement function within the Council has matured. This has been centered on the work undertaken by the Corporate Procurement Group (CPG). Much of this progress has been made through the actions of the existing procurement strategy that ran to the end of 2014.

2.3 CPG consisted of the Directorate Procurement Champions (DPCs), procurement specialists, legal and internal audit.

2.4 In November 2012 the North Yorkshire Procurement Service (NYPS) was established to provide resource to the wider procurement teams within the Council and also to assist in providing advice on procurement matters to CPG. Through the work of CPG the Council now has a comprehensive Contracts Register, which records where the Council is currently spending its money.

2.5 The Council has also developed Forward Procurement Plans (FPPs). FPPs allow Directorates (and their corresponding DPCs) to have an oversight of approaching procurements. As a result, resources and specialist support can be deployed to promote good procurement. FPPs are also published on the Council's Internet to inform potential suppliers of future opportunities.

2.6 Alongside this, the procurement manual, the gateway process and the procurement documentation that supports these processes have been further developed.

2.7 A good deal of the above is focused around the operational aspects of the procurement process itself i.e. supplier sourcing, supplier evaluation and awarding the contract. This is essential in that it ensures that the Council complies with its own Contract Procedure Rules and the wider EU procurement directives.

2.8 Notwithstanding the above, effort is also needed throughout the lives of the various contracts. Time taken to plan, research and analyse will add significant value to identifying solutions that will better meet the Council's needs. Focussing on relationship development means that less time is spent resolving issues and more time applied to assessing quality in delivery and identifying opportunities for cost savings / benefit gains.

2.9 Over the past 6 months CPG has been developing a revised Corporate Procurement Strategy. It seeks to build upon expertise and good practice that are available within the Council, regionally and nationally from across sectors. In essence the revised strategy is more ambitious and outward looking.

2.10 The revised strategy will be presented for Cabinet Approval on the 29 March 2015.

3.0 REVISED CORPORATE PROCUREMENT STRATEGY

3.1 The views from Members of the Audit Committee were sought on 4 December on the principles of good Contract Management. These views have contributed to the development of the strategy prior to consideration and endorsement by Management Board on 16 December 2014.

3.2 The revised Corporate Procurement Strategy takes into account the need to consider procurement much more widely than the sourcing, evaluation and award processes and is summed up succinctly in the vision statement, which is:

"To become outcome focused ensuring that all Commissioning, Procurement and Contract Management actively delivers Value for Money and efficiencies for the Council"

The success and delivery of the strategy is built around three areas showing a progressively wider level of engagement, which are:

1) Developing, training and equipping the wider procurement function
2) Working within and supporting the wider Council
3) Engaging with the wider community

Further detail around the revised strategy can be seen in **Appendix 1**.

3.2 There are a number of positive outcomes associated with these areas:

- The Councils staff will be better trained and will work more commercially within the Council.
- Advice and support will be quicker and add more value to the Councils procurement activities.
- Over time the Council will select, implement and benefit from the latest technology and tools.
- Early planning will ensure that outcomes are exactly as intended and supplier performance is continuously improving.
- The best suppliers/providers are identified for each contract paying particular attention to using businesses in our local area to help boost economic growth.

3.3 It is important that the council ensures that the best provider is identified for each contract, including local suppliers, small and medium sized enterprises and third sector providers. Where appropriate, consideration will be given to dividing procurements in to lots, supporting prompt payment of sub-contractors, and improved transparency in the council's procurement processes and procurement pipeline to help boost economic growth in our local area.

3.4 These areas of the strategy are not designed to work in isolation but are tied together through a number of themes. Key themes include:

3.5 Commercial and Procurement Training

Through a gap analysis an acknowledgement of the needs of all relevant staff involved in procurement will be recognised. Current training will be assessed for fitness for purpose. Current training will be enhanced and new training will be introduced. A clear outcome is to improve on the general commercial awareness of relevant staff, enabling them to understand and challenge the suppliers and wider supply chain.

3.6 Category Management

A strategic approach will be adopted which organises procurement resources to focus on specific areas of spend. Essentially it is the use of a Category expert, with deep commercial and market knowledge, to drive efficiency from procurement in a given spend category. The Category Management approach aims to ensure that we take a cross-directorate view of our major spend areas in order to maximise value for money and realise benefits in practical terms.

3.7 Contract Management

Greater emphasis is to be placed on ensuring that contracts operate as they were envisaged and procured. A balanced approach will be taken whereby more resource will be made available to manage contracts at both an operational level (managing the contract on a day-to-day basis) and at a strategic level (improving the contract – supplier relationship management). Costs will be managed and efficiencies and savings should be gained due to improved work in contract management. Additional support from NYPS has been obtained in this area.

3.8 Partnering

Together with cross directorate collaborative procurement opportunities being sought within the Council, time and effort will also be spent in building partnerships outside the Council both regionally and nationally. Collaborative opportunities will be sought with Districts, Local Authorities, Health and other parts of the public sector. The Council will also work with and learn from the private sector, which will allow the Council to consider and implement good practice to be adopted for greater efficiencies.

3.9 Market Engagement

Time spent before submissions are invited from bidders gives a valuable opportunity to identify and outline requirements more clearly, involve users, staff, potential suppliers (large and small and across sectors) early, refine the specification, business case and budget and to select the most appropriate procurement route for the council.

3.10 Other themes that will be developed are the use of technology and tools; risk management; commercialism and income generation; processes and compliance; communication and charting successes through procurement performance.

3.11 The Strategy complements the work emerging from the 2020 North Yorkshire Programme and will link in to a number of the cross cutting themes in particular commercial focus, partnership working and alternative delivery models.

4.0 IMPLEMENTATION OF THE STRATEGY AND STRATEGY ACTION PLAN

Strategy Action Plan

4.1 The revised strategy will be implemented through the activities detailed in the developing Strategy Action Plan, which can be seen in **Appendix 2**.

4.2 The Action Plan has been developed around the themes referred to in Section 3. Each theme has been broken down further in to a number of actions. These actions link directly back in to the strategy, particularly around the following parts:

- What we will achieve
- What we need to do to achieve the vision.

4.3 The actions are based around the principles of 'SMART' and have a time frame for completion. The newly formed Procurement Operational Group (POG) will be accountable for the delivery of the Action Plan.

Operational & Strategic Management

4.4 POG will work as a more coherent procurement functional team. Cross Council working will be strengthened and procurement standards will be championed by the DPCs. The result is a more disciplined framework for procurement which allows a more ambitious approach to now be taken.

4.5 A strategic (Corporate Procurement Board (CPB)) has been established, using an existing management structure within Strategic Resources, to shape direction; ensure a good interface with service commissioning requirements; and ensure that the Strategy and Action Plan are well managed and stay on task. POG will feed in/out of CPB.

4.6 CPB will invite additional senior representation, drawn from the directorates, at least once a year to ensure a 2 way shaping of the procurement strategy. This will also ensure linkage between the procurement function and commissioning work undertaken in directorates.

Targets

4.7 Throughout the Strategy's life its progression will be monitored and recorded by way of a number of wide ranging targets. These include procurement savings which have initially been set at £12m by the end of 2017. This has been determined by reference to information obtained from FPPs. It should be noted that the savings are recorded as procurement savings but remain cash reductions within Directorate budgets and savings programmes to avoid double counting. Procurement is therefore being used as an enabler of savings for all areas across the Council.

4.8 We will also seek to ensure that "off-contract" spend is significantly reduced

4.11 The Council is aiming to be recognised for doing things differently and over the next three years is targeting success in procurement awards. This will also allow us to promote the work of our very best contractors, suppliers and in-house staff / Members.

5.0 RECOMMENDATIONS

5.1 The Audit Committee is asked to

i. Note the Corporate Procurement Strategy
ii. Offer comments on its content with a view to shaping further versions of the Strategy

Gary Fielding
Corporate Director – Strategic Resources

Author of Report –

Simon Toplass
Head of Procurement and Contract Management
5 March 2015

Appendix 1 – Revised Corporate Procurement Strategy

Corporate Procurement Strategy 2014 - 2020

Council Vision

2020 North Yorkshire Vision

Vision for Procurement

"To be outcome focussed ensuring that all Commissioning, Procurement and Contract Management activity delivers Value for Money and efficiencies for the Council".

What we will achieve

Through the wider **procurement function** we will:

1. **Improve commercial capability of our staff**
2. **Develop expertise to provide advice and support**
3. **Utilise technology and systems to facilitate procurement efficiencies**

By working within and supporting the wider **council**, we will:

1. **Contribute to the 2020 North Yorkshire savings programme**
2. **Better understand and manage outcomes and risks**
3. **Improve supplier performance**

By engaging with the wider community, we will:

1. **Be better informed of their needs**
2. **Ensure the best provider(s) are identified for each contract, including SME's, local and third sector providers**
3. **Embed, when appropriate, social value into our ways of working**

What we need to do to achieve the vision

- Carry out a skills audit to identify gaps.
- Invest in high quality, targeted commercial and procurement training for relevant staff.
- Implement Category Management methodologies across the Council.
- Implement Council wide category management sourcing strategies to take advantage of better intelligence of our buying needs ensuring the best outcomes are achieved.
- Improve awareness and use of the most effective contracting option.
- Work with and learn from high performing organisations.
- Harness value from local, regional and national procurement networks.
- Build commercial and procurement knowledge across the Council to provide support and challenge.
- Support the use of technology to deliver enhanced and efficient ways of working, transparency, compliance and improved Council data.

- Maintain accurate Forward Procurement Plans that will:
  - Predict and realise targeted savings
  - Inform resource planning
- Utilise spend data and market intelligence to drive contract performance and outcomes.
- Work with services across the Council at the earliest stages to deliver innovative outcomes.
- Ensure that risk is appropriately considered in the commissioning, procurement and contract management processes.
- Ensure robust contract management.
- Develop our reputation as a 'Savvy' authority through effective contract and performance management.
- Identify opportunities for savings and improvement strategies during the contract term.
- Identify approaches for securing additional income for the Council.

- Develop the link between commissioning and procurement teams to ensure that there are a range of services to meet future customer needs.
- Undertake a review of the opportunities for building provider capacity, innovative solutions to market shaping and market incentivisation.
- Undertake targeted consultation events followed by analysis and planning.
- Move to outcome based specifications where appropriate.
- Develop NYCC's communication and market engagement strategy.
- Ensure providers have a professional experience when engaging with the Council.
- Identify and promote social, economic and environmental benefits in our categories and procurements where appropriate.

How will we know

Targets:

1) Procurement savings of £ £12 m by 2017 2) Category Sourcing strategies signed off for top 5 spend areas by 2015 3) Win national procurement award by 2017 4) On-contract spend of 90% by 2017 5) Establish a supplier recognition award by 2017 6) Consistently high procurement performance across a variety of measures

Appendix 2 – Strategy Action Plan

Contract Management/Supplier Relationship Management	Partnering
Training & Development	Technology & Tools
Category Management	Risk Management
Procurement Performance	Market Engagement
Commercialism & Income generation	Communications
Process/Documentation/Compliance	

Note: The Corporate Procurement Group are the owners of the Action Plan and reserve the right to review and update the plan at any time

What we're going to do	How we'll know we've done it	By When	Accountability	Links to
Fully define Category Management. Achieve 'buy in' of POG	**Report** produced. POG fully understands and appreciates how Category Management will be implemented.	Dec-14	KD	Communications
Review current guidance available to officers through a revised Procurement Manual and associated appendices. Clear on instructions about the available contracting options, commercial awareness, risk identification & management, contract management, consultation, specifications and social value	Guidance is updated. Procurement Manual on the intranet. Content of guidance is consistent with current training programmes offered by NYCC.	Dec-14	CMM	Risk Management/Contract Management

• Identify and engage with stakeholders to agree approach e.g. Workforce Development Group, Directorate Reps etc. • Collate training data from Learning Zone etc. • Cross check training data from LZ with all named Contract Managers on 2014-17 FPP Q2 updates. • Identify training gaps for remainder of 14/15.	Gap analysis for 14/15 completed. Training gaps for 14/15 filled	Mar-15	SW	Category Management/ Contract Management/ Risk Management/ Commercialism & income generation
Ensure early links with commissioners to ensure informed FPPs. Development of directorate market engagement strategies which indicate future commissioning requirements. Directorate market engagement strategies will be completed in accordance with Directorate commissioning strategies	Directorate Forward Procurement Plans approved (quarterly thereafter).	Mar-15	HT	Category Management/Partnering
Develop NYCC Category Management Toolkit. Toolkit widely available for use	Toolkit produced and agreed by POG.	Apr-15	KD	Process, Documentation, Compliance/ Training & Development/ Technology & Tools
Identify local, regional and national procurement networks. Recognise and adopt good practice. Implement good practice, where appropriate. Realise efficiencies.	Working/contributing to identified networks. Results informing our category management strategies and significant spend areas.	Apr-15	HT	Category Management
Develop a Corporate Procurement Communication Plan in conjunction with the marketing department.	Meeting held with the marketing department and plan created. (Updated regularly with assistance from the marketing Department thereafter)	Apr-15	ST	Process, Documentation, Compliance
Support the roll out of the P2P process to enable more efficient requisitioning and ordering. Support April 2015 go live and then provide on-going support to the System and Purchasing Team. Link in with 2020 Finance project.	Requisitioning and ordering elements fully embedded in to P2P. On-going support thereafter.	Apr-15	KD	Contract Management

Ensure that all commodity-based contracts are provided in correct Oracle iProc compliant catalogues format. Catalogues are provided and uploaded to oracle iProc.	All catalogues uploaded to Oracle iProc in correct format.	Apr-15	KD	Contract Management
Improve **intranet** content to assist staff in procurement related activities	Fully refreshed in line with the web teams direction. Increasing hits, positive feedback solicited.	Apr-15	ST	Process, Documentation, Compliance
Create a meaningful set of metrics to measure the performance of the wider procurement function (NYPS and NYCC). Sources of the information will be identified. An established methodology for gathering the information will be agreed. Responsible officers for each set of data, and the parties required to contribute are identified. Comparison with other Authorities to share best practice.	Finalise list of measurements agreed by POG.	Apr-15	ST	Partnering/Communications
Manage the Action Plan through the Corporate Operational Procurement Group. This will be an on-going process with a formal review on a quarterly basis.	Corporate Operational Procurement Group Terms of Reference confirmed. Monitored quarterly.	Apr-15	ST	Communications
Use the National Advisory Group for ideas/learning from other LAs, nationally. We will review all NAG's ideas and fully considered their application with NYCC. Include NYCC successes through the NAG website.	Workable ideas are being considered and implemented where possible. (reviewed on-going)	Apr-15	ST	Partnering
Discuss with 'Smart Solutions' a new charging mechanism for schools procurement.	New charges being applied.	Apr-15	ST	Category Management
Review the Contract Management toolkit for use by NYCC staff. Consideration to tactical and strategic contract management.	A revised contract management toolkit is produced and agreed by POG.	Apr-15	RW	Process, Documentation, Compliance/ Training & Development/ Technology and Tools

Develop effective customer service. Develop effective ways to capture feedback from providers. Utilize feedback to continually improve services	Feedback methodology in place and being used	Apr-15	HT	Category Management/Contract Management
Develop a system for publication of updates to all procurement documentation.	System up and running. Updated on a regular basis thereafter.	Jun-15	CMM	Communications
Implement a private procurement social network to allow for cross-departmental exchange of ideas. Make it available to whole procurement community.	Private procurement social network is implemented	Jun-15	ST	Technology and Tools
Review current commissioning, procurement and contract management processes to understand how risk is currently being approached.	Report produced, for consideration by POG, detailing how risk is currently approached.	Jun-15	CMM	Partnering
Through POG ensure there is a full understanding of outcome based specifications. Outcome based specifications are being used appropriately	Guidance to assist in developing outcome based specifications is produced	Jun-15	HT	Process, Documentation, Compliance
Ensure that social, economic and environmental principles are captured and built into procurements. Engage with experts that work with public sector organisations e.g. Centre for Local Economic Strategies (CLES). Update and train staff to utilise the NYCCs Social Value tool kit	Engaged with CLES and best practice, advice applied. Toolkit updated and fit for purpose	Jun-15	HT	Category Management/ Process, Documentation, Compliance
Review content of procurement pages on Intranet to ensure links to contracting options are clear. Review and update procurement pages including standardised version control. Ensure information is easily accessible.	Procurement pages updated and version control is in place. A list of available framework options, both internal and external, to be accessed on the Intranet has been compiled.	Jul-15	CMM	Category Management

Make improvements to the **internet** content. This will inform potential bidders of opportunities and provide 'rich' content for them to benefit from.	Fully refreshed in line with the web teams direction. Increasing hits, positive feedback solicited.	Jul-15	ST	Process, Documentation, Compliance
Ensure collaboration between commissioning teams (know what they want in terms of scope/specification) and procurement teams (know about the market and its capabilities) to work together for improved outcomes.	At least one collaborative meeting has taken place. Results informing category management strategies.	Jul-15	HT	Category Management
Renegotiate existing contracts, where relevant, for income opportunities. Collaboration with the service area Contracts Manager and the dedicated Contract Manager (NYPS).	**5** contracts renegotiated.	Aug-15	ST	Contract Management
Capture lessons learnt and report formally through the Corporate Procurement Operational Group on a 6 monthly basis to inform improved ways of managing contracts. Method being applied.	Demonstrated on **10** significant contracts based on value and or risk.	Sep-15	RW	Category Management/ Procurement Performance
Full consideration of implementing Dynamic Purchasing System (DPS). DPS via YORtender. Review and identify projects on FPP	**1** DPS successfully implemented	Sep-15	KD	Category Management
Review commissioning opportunities with a commercial approach - exploiting assets; selling services; reducing costs through cost/benefit analysis. Relationships with commissioners are developed. FPP used to highlight relevant contracts for review and opportunities selected.	3 commissions selected and linked in with the Category Management planning process	Sep-15	ST	Category management
Risk will be managed collaboratively between NYCC and its contractors. Cost reductions will be achieved through appropriate transfer of risk. Risk is managed and mitigated through the contract management process.	Achieved cash or efficiency savings in relation to **10** contracts. Savings fully documented and included in the NYCC savings log.	Sep-15	RW	Risk Management/Targets (Savings)

An annual programme of internal audits to be undertaken to ensure robust contract management processes are in place.	**5** internal audits completed. (On-going thereafter)	Sep-15	RW	Procurement Performance
Support is provided to the dedicated Contract Manager (fixed term). Savings delivered through this initiative.	Savings delivered are recorded on to the NYCCs savings log. Report produced by dedicated Contract manager.	Sep-15	RW	Targets (Savings)
Work with our contractors to review performance levels and improve efficiencies. Incorporate changes into contracts to deliver efficiencies. Be aware of developments within the industry and to implement them with our contractors to deliver benefits.	Applied to **10** contracts. Contracts remain up to date reflecting service/goods/works delivered. Contract variations completed where appropriate.	Sep-15	RW	Category Management/ Training & Development/ Procurement Performance
Liaise with risk management colleagues to discuss results of review and engage with them to build up better processes as appropriate to ensure effective risk management is applied in commissioning, procurement and contract management processes	Clear processes in respect of risk management in commissioning, procurement and contract management processes are in place	Sep-15	CMM	Process, Documentation, Compliance (initially), outcome to then be fed into future Training & Development
Where complex contract management issues arise Service Areas will be supported by their DPC and/or an appropriately trained individual in contract management / contract negotiations.	**5** complex areas agreed and acted upon.	Sep-15	RW	Risk Management
Ensure that NYCC can meet its contractual obligations prior to procurement and/or contract signature.	Evidence of fewer supplier complaints and/or additional charges to NYCC as a result of not meeting contractual obligations.	Sep-15	RW	Market Engagement
Capture data around current markets and capacity. Engage with markets (existing providers and other providers) early to gain a better understanding of capacity stresses and surpluses. Map capacity against further commissioning requirements. Consider innovative procurement practices to enable a viable approach to evaluating innovative solutions. Ensure procurement documentation templates empower staff to undertake innovative procurements. Gain a better	Focused market engagement events evidencing innovative solutions and stimulating the market	Sep-15	HT	Category Management/ Commercialism and income generation

understanding of market incentivisation practices used in different markets				
Ensure FPPs are up to date and appropriately authorised. Seek out cross directorate collaborative procurement opportunities. Identify category themes and partner with other directorates as required.	**2** complex projects completed.	Oct-15	HT	Category Management
Ensure Category Management resource is sufficiently built in to the overall structure. Category Managers are adequately trained through dedicated training. Initial level of awareness/understanding/current application are gained through surveys to establish skills gaps.	Dedicated and trained category management resource is being applied. Initial training complete.	Dec-15	KD	Contract Management/ Training & Development/ Procurement Performance
Develop a central repository of available frameworks/contracts for use by the NYCC. Kept current through Process, Documentation and Compliance	Central repository created and available to NYCC staff.	Dec-15	KD	Process, Documentation, Compliance
Ensure contract management resource is sufficiently built in to the overall structure and contracts are operating as intended. Engage with the Local Partnerships (Local Government Association) to review contract management processes and ensure the council maximise benefits. Contract Managers are adequately trained.	Confidently managing **75%** of NYCC spend. Contract Managers trained. Review with the Local Partnership (Local Government Association) is complete and findings implemented.	Dec-15	RW	Category Management/ Training & Development/ Procurement Performance/ Process, Documentation, Compliance/Risk Management
Review current policies in respect of liabilities, indexation and apportionment of risk. Consider how to adapt contract documentation.	Clauses added to contract documents.	Dec-15	CMM	Commercialism/ Risk management

Identify high performing organisations (Buying and Supplying). Links made with organisations. Gain understanding of what makes them high performing. Share knowledge and best practice. Utilise findings to inform effective changes within NYCC practices.	Meetings with **5** buying and **5** supplying organisations completed. Best practice documented. On-going relationships formed	Dec-15	HT	Contract Management/ Category management/ Process, Documentation, Compliance
Review accessibility of current guidance and documentation on Intranet. Ensure that it is in an electronic format.	Users asked to confirm accessible.	Dec-15	CMM	Technology and Tools
Ensure CPRs set out rules promoting/mandating the use of e-tendering.	2015 publication of CPRs includes mandatory use of e-tendering.	Dec-15	CMM	
Research suitable awards and categories. Review previous winners and competition criteria, including liaising with other LAs. Raise awareness of award and timescales for application to the wider procurement team. Identify suitable NYCC project (s). Liaise with appropriate colleagues with regards to best practice for award applications.	First submission made. (Apply same process for future years)	Dec-15	ST	Procurement Performance
Liaise with appropriate colleagues for best practice to establish an award. Decide on methodology for award. Consider themes. Draft and agree criteria for awards. Establish stakeholders/ Judging panel. Draft and implement communication for NYCC and supplier side (seek advice from Comms dept.). Publicise success	Awards agreed and team set up. First award made. (Build on success for future years). Award fully publicised.	Dec-15	ST	Procurement Performance
Link to Partnering theme where high performing organisations and local, regional and national procurement networks have been made. Best practice is understood and applied where applicable.	Best practice identified and included within NYCC procurement guidance and documentation	Dec-15	CMM	Partnering
Review template Gateway Report documents. Templates prompt for consideration to risk, contract management and social value.	Gateway Report fully updated and in use.	Dec-15	CMM	

Review template contract documentation. Documents ensure risk, contract management and social value are adequately and appropriately addressed	Contract documents fully updated and in use.	Dec-15	CMM	
Help 'Smart Solutions' in bidding for external contracts/ opportunities. Relationship formed with 'Smart Solutions'	NYCC winning external work with increasing success. Profit achieved.	Dec-15	ST	Partnering
Develop a portfolio of framework agreements that can be offered to LA's on commercial terms. FPP used to highlight areas to develop. Income is made up of rebates and access fees. Ensure that income generated is greater than the cost of the effort required to establish a framework.	Income realised on 2 frameworks.	Dec-15	ST	Category Management/ Partnering
Ensure guidance documentation includes guidance in respect of risk management in commissioning, procurement and contract management processes e.g. risk register	Guidance document produced.	Dec-15	CMM	Process/Documentation/ Compliance
Ensure template Gateway Report documents prompt officers to consider risk	Gateway Report templates fully updated.	Dec-15	CMM	Process/Documentation/ Compliance
Ensure template procurement documentation prompts officers to address risk at the appropriate time	Procurement documentation templates fully updated.	Dec-15	CMM	Process/Documentation/ Compliance
Ensure template contract documentation adequately and appropriately addresses risk.	Contract documentation templates fully updated.	Dec-15	CMM	Process/Documentation/ Compliance
Review procurement documentation. Ensure it is clear, concise and easy to use. End users are consulted. Bidders to be consulted. Use of plain English. Corporate Procurement Operational Group are consulted.	Documentation reviewed.	Dec-15	CMM	Communications/Market Engagement

Better understand how NYCC can undertake improved targeted consultation events. Develop standardised format to plan for these types of events.	Standardised format produced and is being used. Format used on complex project	Dec-15	HT	Category Management /Training & Development
Create bespoke Oracle procurement reports to deliver intelligence on workflow, category spend and payment performance.	Suite of reports are available for procurement staff to use.	Jan-16	KD	Contract Management
• Communicate on-going work and highlight the need for procurement training to be captured in Appraisal Reviews by December 2014. • People prioritized and identified for training – agree/consolidate with Directorate Training Plans for 15/16	Gap analysis for 15/16 completed. Training gaps for 15/16 filled	Mar-16	SW	Category Management/ Contract Management/ Risk Management/ Commercialism & income generation
Develop main spend categories: **Health/Social Care (Sub Category); Property/FM; Transport/Fleet; Energy; IT.** Link NYCC Category Sourcing to National Category plans and establish links with and spend time with high performing organization in these areas.	Category Sourcing Plans in place and signed off for: **Health/Social Care (Sub category); Property/FM; Transport/Fleet; Energy; IT**	Mar-16	KD	Market Engagement/ Contract Management/Partnering
Set up e-invoicing from top 100 contractors in terms of invoice volume. Ensure acceptable electronic format is achieved with no human intervention required.	Top **100** contractors providing invoices in correct format.	Apr-16	KD	Contract Management
Create Procurement Dashboard for contract management purposes.	Dashboards are available for procurement staff to use.	Apr-16	KD	Contract Management
Identify further opportunities for eAuctions to deliver further cost and resource savings. Review projects on FPP. Research other systems.	Minimum **5** successful eAuctions delivered	Apr-16	KD	Category Management

Link Service / Supply / Works where appropriate across the category.	Consortiums or new supply chains set up as part of procurement project.	Sep-16	KD	Contract Management
Make informed decisions based on spend information. Obtain data to provide credible intelligence to make informed decisions to **achieve** contract **improvements** and savings	Savings recorded on NYCC savings log.	Sep-16	RW	Category management/ Technology and Tools/ Procurement Performance
• Review content of current procurement, contract management and commercial training with stakeholders and training recipients • Review current contracts relating to the provision of training providers • Agree future requirements of training content and future service provision, relating to FPPs • Training and Development/NYPS undertake procurement as required • Review training content and feedback once implemented	Review current training contracts (**Dec 14**); Review of training content (**Feb 15**); Agree future requirements for content (**April 15**); Agree future training procurement strategy (April 15); Implement new training regime (Oct 15); 50% throughput (March 16); 50% throughput (Oct 16); Training Review Report (Mar 16)	Oct-16	SW	Category Management/ Contract Management/ Risk Management/ Commercialism & income generation
Facilitating YORtender to run eQuotations, ePQQ's. Maximise YORtender usage	YORtender being used for **all** eQuotations. ePQQ constructed and is being used on all projects	Oct-16	KD	Category Management/ Training & Development
Explore use of electronic signatures	Electronic signatures are in use	Dec-16	CMM	Technology and tools

AUDIT COMMITTEE - PROGRAMME OF WORK 2014 / 15

	ANNUAL WORKPLAN **Audit Committee Agenda Items**	**DEC 14**	**MAR 15**	**APRIL 15**	**JUNE 15**	**JULY 15**	**SEPT 15**	**DEC 15**	**MAR 16**
A	Training for Members (as necessary)	4	5	1					
	Annual Internal Audit Plan 2014/15		×	×					
	Annual report of Head of Internal Audit 2013/14								
	Progress Report on Annual Internal Audit Plan 2013/14	×	×	×					
	Internal Audit report on Children and YP's Service								
	Internal Audit report on Computer Audit/Corporate Themes/Contracts								
	Internal Audit report on Health and Adult Services								
	Internal Audit report on BES	×							
	Internal Audit report on Central Services		×						
B	*Annual Audit Letter*	×							
	Annual Audit Plan 2013/14 (NYCC & NYPF)								
	Annual Report / Letter of the External Auditor								
	Annual Grant Letter			×					
	Discussion with External Auditor on 1-to-1 basis								
C	Statement of Final Accounts including AGS (NYCC + NYPF)								
	Letter of Representation								
	Chairman's Annual Report								
	Effectiveness of Audit Committee								
	Changes in Accounting Policies	×							
	Corporate Governance – review of Local Code + AGS								
	– progress report inc re AGS								
	Risk Management (inc Corporate R/R) – progress report	×							
	Partnership Governance – progress report								
	Information Governance – progress report								
	Review of Finance,/Contract/Property Procedure Rules								
	Service Continuity Planning								
	Audit Committee Terms of Reference	×							
	Counter Fraud		×						
	Contract Management	×							
	Treasury Management – Executive February		×						
	Corporate Procurement Strategy		×						
	VFM Review			×					
D	*Work Programme*	×	×	×	×	×	×	×	×
	Progress on issues raised by the Committee (inc Treasury Management)	×	×	×	×	×	×	×	×
E	Agenda planning / briefing meeting	19/11	17/02	01/04	10/06	02/07	09/09	18/11	16/02
	Audit Committee Agenda/Reports deadline	24/11	19/02	31/03	15/06	06/07	14/09	23/11	22/02
	Audit Committee Meeting Dates	04/12	05/03	16/04	25/06	16/07	24/09	03/12	03/03

A = Internal Audit
B = External Audit
C = Statement of Final Accounts / Governance
D = Other
E = Dates

☼ before formal meeting
1 External Auditor
2
3 Governance & Statement of Account
4 2020 North Yorkshire Programme
5 Health and Social Care Integration (Richard Webb)
6 Information Governance