Agenda

Meeting: **Audit Committee**

Venue: **Brierley Room, County Hall, Northallerton**

Date: **Thursday 3 March 2016 at 1.30 pm**

Note: **Members are invited to attend a seminar concerning Counter Fraud at 12.30 pm in the Brierley Room. A buffet lunch will be available from midday in the Brierley Room.**

Recording is allowed at County Council, committee and sub-committee meetings which are open to the public. Please give due regard to the Council's protocol on audio/visual recording and photography at public meetings, a copy of which is available to download below. Anyone wishing to record is asked to contact, prior to the start of the meeting, the Officer whose details are at the foot of the first page of the Agenda. We ask that any recording is clearly visible to anyone at the meeting and that it is non-disruptive. http://democracy.northyorks.gov.uk

Business

1. **Minutes of the meeting held on 3 December 2015.**

(Pages 1 to 5)

Enquiries relating to this agenda please contact Ruth Gladstone **Tel: 01609 532555**
Fax: **01609 780447** or e-mail ruth.gladstone@northyorks.gov.uk
www.northyorks.gov.uk

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 2 and 3 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.

3. **Public Questions or Statements.**

Members of the public may ask questions or make statements at this meeting if they have given notice to Ruth Gladstone of Democratic Services *(contact details at the foot of the first page of the Agenda)* by midday on Monday 29 February 2016. 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 6 to 8)

5. **External Audit Plan 2015/16 for North Yorkshire County Council and North Yorkshire Pension Fund** – Plan from KPMG.

(Pages 9 to 24)

6. **Progress on 2015/16 Internal Audit Plan** - Report of the Head of Internal Audit.

(Pages 25 to 29)

7. **Internal Audit Plan for 2016/17** - Report of the Head of Internal Audit.

(Pages 30 to 49)

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

(a) Report of the Head of Internal Audit.

(Pages 50 to 58)

(b) Report of the Corporate Director - Strategic Resources.

(Pages 59 to 71)

9. **Accounting Policies** - Report of the Corporate Director – Strategic Resources.

(Pages 72 to 78)

10. **Information Governance – Progress Report** - Report of the Corporate Director – Strategic Resources.

(Pages 79 to 83)

11. **Counter Fraud and Associated Matters** - Report of the Head of Internal Audit.

(Pages 84 to 95.
Private appendices 2 and 3 circulated to Members only - Pages 96 to 109)

12. **Annual Treasury Management Strategy 2016/17** - Report of the Corporate Director – Strategic Resources.

(Pages 110 to 175)

13. **Programme of Work** – Report of the Corporate Director – Strategic Resources.

(Page 176)

14. **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

24 February 2016

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. 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

Membership as at 22 February 2015

1. Membership

County Councillors (8)							
	Councillors Names					*Political Party*	
1	ATKINSON, Margaret				(Vice Chairman)	Conservative	
2	BAKER, Robert					Conservative	
3	BROADBENT, Eric					Labour	
4	CLARK, Jim					Conservative	
5	FORT, John BEM					Conservative	
6	GRANT, Helen					NY Independent	
7	HOULT, Bill					Liberal Democrat	
8	JORDAN, Mike				(Chairman)	Conservative	
Members other than County Councillors (3)							
1	PORTLOCK, David						
2	MARSH, David						
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	HARRISON-TOPHAM, Roger	**1**	De COURCEY-BAYLEY, Margaret-Ann
2	SANDERSON, Janet	**2**	
3	METCALFE, Chris	**3**	
4		**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**	

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 3 December 2015 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillor Mike Jordan (in the Chair); County Councillors Margaret Atkinson, Eric Broadbent, Jim Clark, John Fort BEM, Helen Grant and Bill Hoult.

External Members of the Committee:-

Mr David Marsh and Mr David Portlock.

In Attendance:-

County Councillor Carl Les (Leader of the Council).

County Councillor Don Mackenzie (Executive Member for Highways, Road Safety, Access to the Countryside (including Broadband mobile phone coverage) and Public Transport).

KPMG Officers: Rashpal Khangura and Keith Illingworth.

Veritau Ltd Officers: Max Thomas (Head of Internal Audit) and Richard Smith (Deputy Head of Internal Audit).

County Council Officers: David Bowe (Corporate Director – Business and Environmental Services), Kevin Draisey (Head of Procurement and Contract Management), Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Michael Leah (Assistant Director Strategic Resources, Business and Environmental Services Directorate) and Fiona Sowerby (Corporate Risk and Insurance Manager).

Copies of all documents considered are in the Minute Book

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151. Minutes

Resolved –

That the Minutes of the meeting held on 24 September 2015, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

152. Public Questions or Statements

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

153. Progress on Issues Raised by the Committee

Considered -

The joint report of the Corporate Director – Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services) advising of progress on issues which the Committee had raised at previous meetings and providing an update concerning Treasury Management.

Resolved -

That the report be noted.

154. Contract Management

Considered -

The report of the Corporate Director - Strategic Resources advising of:- the arrangements relating to contract management within the County Council and the principles of good contract management; the developing strategic direction of the Corporate Procurement Group to improving contract management within the Council; an analysis of the future challenges and risks the Council faced in terms of contract management; and recent activity and the next steps.

Members expressed support for up-skilling contract managers, sharing contract management practices and experience across directorates, challenging contracts which were not delivering, and spending sufficient time on re-negotiation.

Members highlighted that collaborative procurements were a good way to achieve savings, but required flexibility from the organisations involved.

Members highlighted that sourcing from local suppliers increased the amount received in business rates and consequently provided a more stable Council Tax base for the County Council. The officers confirmed that procurement procedures could be used to take advantage of local suppliers, although managers had to think this through before going out to tender.

Members highlighted that it was important, once the new contract management arrangements were in place, to recognise and publicise success which would further improve contract management behaviour within the County Council.

Resolved -

(a) That the report be noted.

(b) That Members' comments, as recorded in the preamble to this Minute, be taken into consideration.

155. Review of Contract Procedure Rules

Considered -

The report of the Corporate Director - Strategic Resources inviting the Committee to comment on suggested changes, which were to be submitted to the Executive, to the Contract Procedure Rules.

In response to questions, the officers clarified that "a qualified supplier", as mentioned in the report, related to a bidder who operated in that market. It did not refer to a formal qualification.

In response to questions, the officers confirmed the following:- that the County Council already operated an alert system to advise of tenders it would be putting out in future; contracts were already split into smaller contracts because this was required by Regulations but not for the purpose of avoiding going out to tender; and that training was already provided in how to put together a Contractor Framework Agreement.

The representatives of KPMG confirmed that they would be looking at the County Council's Contract Management arrangements as part of their work.

Resolved -

That the report be noted.

156. Internal Audit Work and Related Internal Control Matters for the Business and Environmental Services Directorate

Considered -

(a) The report of the Head of Internal Audit advising of the internal audit work performed during the year ended 30 November 2015 for the Business and Environmental Services Directorate and giving an opinion on the systems of internal control in respect of that area. It was reported that the overall opinion of the Head of Internal Audit on the controls operated within the Business and Environmental Services Directorate was that they provided Substantial Assurance.

(b) The report of the Corporate Director – Business and Environmental Services providing an update on progress against the areas for improvement identified in the Business and Environmental Services Directorate's Statement of Assurance, together with details of the Directorate's latest Risk Register.

Members questioned County Councillor Don Mackenzie, David Bowe, Max Thomas and Michael Leah concerning the issues in the reports.

Resolved –

(a) That it be noted that this Committee, having considered the report of the Head of Internal Audit, is satisfied that the internal control environment operating in the Business and Environmental Services Directorate is both adequate and effective.

(b) That the position on the Business and Environmental Services Directorate's Statement of Assurance, together with the Directorate's Risk Register, be noted.

157. Audit Terms of Reference

Considered -

The report of the Corporate Director - Strategic Resources asking the Committee to consider possible changes to its terms of reference and Committee Members' future training needs.

It was reported that the Corporate Director – Strategic Resources felt that there were no areas that currently merited change in the Committee's terms of reference. However, it was recognised that changes might be required in the future as a result of the introduction of the local appointment of external auditors from 2018/19 onwards.

Representatives from KPMG advised that they considered that regular review of the Committee’s terms of reference was positive.

The Corporate Director – Strategic Resources advised that he would circulate a KPMG briefing paper to Committee Members.

Resolved -

(a) That no change be made to the Committee’s terms of reference.

(b) That it be noted that the Chairman will invite suggestions concerning future training or briefing sessions during consideration of the Work Programme at the end of this meeting.

(c) That it be noted that the Corporate Director – Strategic Resources shall circulate a KPMG briefing paper to Committee Members.

158. Progress on 2015/16 Internal Audit Plan

Considered -

The report of the Head of Internal Audit advising of the progress made to date in delivering the 2015/16 Internal Audit Plan and developments likely to impact on the Plan throughout the remainder of the financial year.

It was reported that Internal Audit was on track to achieve or exceed its targets by the cut-off date for the 2015/16 audits.

It was reported that the number of requests under the Freedom of Information Act had now plateaued, although the requests received now were often more complex that those received in previous years.

Members commented that they were disappointed with Information Security Compliance standards in the South Block of County Hall and at Manor Road in Knaresborough, as reported in Appendix 2 to the report. The Head of Internal Audit advised that those situations had been addressed immediately by relevant managers and discussed at a CIGG meeting. Members asked to be kept informed of progress via the report “Progress on Issues Raised by the Committee” to this Committee’s next meeting.

Resolved -

(a) That the progress made in delivering the 2015/16 Internal Audit programme of work, and the variations agreed by the client officer, be noted.

(b) That an update on Information Security Compliance standards in the South Block of County Hall and at Manor Road in Knaresborough be included in the report “Progress on Issues Raised by the Committee” to this Committee’s next meeting.

159. Risk Management - Progress Report

Considered -

The report of the Corporate Director - Strategic Resources advising of the updated Corporate Risk Register and progress on other Risk Management related matters including insurance arrangements.

It was noted that the Corporate Risk Register currently had more risks on it than ever before and many were very complex and/or had significant financial implications.

Resolved -

(a) That the updated Corporate Risk Register, as set out at Appendix A to the report, be noted.

(b) That the links between the Corporate Risk Register and the Directorate Risk Registers, as set out at Appendix B to the report, be noted.

(c) That the position on other Risk Management related matters be noted.

160. Programme of Work

Considered -

The report of the Corporate Director - Strategic Resources which invited the Committee to review its programme of work for 2015/16.

Resolved -

That, subject to the changes set out below, the Programme of Work be approved and recirculated to Committee Members:-

(a) A briefing on counter fraud arrangements be included for the March 2016 meeting.

(b) A Seminar be held, to commence at midday on the day of the Committee's meeting in March 2016, to provide a briefing on Procurement and VFM.

(c) The Annual External Audit Plan be rescheduled from July to March 2016 and the reference to "2013/14" be deleted.

(d) The Programme be amended to reflect that the date of the Committee's meeting in September 2016 is on the 29^{th}.

The meeting concluded at 3.30pm.

RAG/JR

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 March 2016

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.	The updated suite of information governance policies was approved by Management Board on 15 December 2015. Further details provided in report on this agenda.	✓
23/09/15	146 – Internal Audit Work and related Internal Control Matters for the Health and Adult Services Directorate.	That the Corporate Director – Strategic Directors discuss the timing of the next governance review of the Health and Wellbeing Board and Integrated Commissioning Board with the Assistant Director – Strategic Resources and the Head of Internal Audit.	Awaiting latest set of guidelines for Better Care Fund and on-going discussions with Health. Optimum timing will then be determined.	X

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
03/12/15	157 – Audit Terms of Reference	That it be noted that the Corporate Director – Strategic Resources shall circulate a KPMG briefing paper to Committee Members	Paper circulated	✓
03/12/15	158 – Progress on 2015/16 Internal Audit Plan	That an update on Information Security Compliance standards in the South Block of County Hall and at Manor Road in Knaresborough be included in the report "Progress on Issues Raised by the Committee" to the Committee's next meeting.	The findings were agreed by management. Remedial actions including improved key security, reminders issued to staff about the need to maintain data security, replacement lockable cupboards and internal security checks have been instigated. Specific issues have been discussed with the staff concerned. Further compliance audits will be undertaken in both areas during 2016/17 to check that improvements have been made.	✓
03/12/15	160 – Programme of Work	A briefing on counter fraud arrangements be included for the March 2016 meeting	Training session on counter fraud has been arranged prior to this meeting	✓
03/12/15	160 – Programme of Work	A seminar to held, to commence at midday on the day of the Committee's meeting in March 2016, to provide a briefing on Procurement and VfM	This seminar will still take place in June	X
03/12/15	160 – Programme of Work	The Annual External Audit Plan be rescheduled from July to March 2016 and the reference to 2013/14 be deleted	This has been rescheduled and included on this agenda	✓
03/12/15	160 – Programme of Work	The Programme be amended to reflect that the date of the Committee's meeting in September 2016 is on the 29th.	The Programme has been amended accordingly	✓

3.0 TREASURY MANAGEMENT

3.1 Current Treasury Management developments include

(i) Capita Asset Services – Treasury Management provided an updated interest rate forecast on 12 February 2016. Capita have revised their first forecast increase in bank rate from 0.5% to 0.75% to early 2017 with further increases of 0.25% to reach 1.75% by March 2019.

(ii) The Executive approved the Annual Treasury Management and Investment Strategy for 2016/17 at its meeting on 16 February 2016. This is scheduled elsewhere on the agenda for more detailed discussion.

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

3 March 2016

Background Documents: Report to, and Minutes of, Audit Committee meeting held on 3 December 2015

KPMG

External Audit Plan 2015/16

North Yorkshire County Council

North Yorkshire Pension Fund

February 2016

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting in 2015/16, which provides stability in terms of the accounting standards the Council need to comply with. There are no significant changes to the requirements for the Pension Fund accounts either in 2015/16.

Materiality

Materiality for planning purposes has set at **£15 million** for the Council and **£25 million** for the Pension Fund.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.75 million** for the Council and **£1.25 million** for the Pension Fund.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- New financial systems (Council and Pension Fund); and
- Impairment of property, plant and equipment due to flooding (Council only).

Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding. None have been identified for either the Council or the Pension Fund for 2015/16.

See pages 3 to 7 for more details.

Value for Money Arrangements work

The National Audit Office has issued new guidance for the VFM audit which applies from the 2015/16 audit year. The approach is broadly similar in concept to the previous VFM audit regime, but there are some notable changes:

- There is a new overall criterion on which the auditor's VFM conclusion is based; and
- This overall criterion is supported by three new sub-criteria.

Our risk assessment is ongoing and we will report VFM significant risks during our audit.

Our VFM conclusion applies only to the Council, and not the Pension Fund.

See pages 8 to 10 for more details.

Logistics

Our team is:

- Rashpal Khangura – Director
- Alastair Newall – Manager
- Keith Illingworth – Assistant Manager

More details are on **page 13.**

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a report to those charged with governance as outlined on **page 12.**

Our fee for the audit is £94,490 for the Council audit (2014/15 fee to Deloitte was £125,987) and £24,943 for the Pension Fund (2014/15 fee to Deloitte was £24,943)

See page 11.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2015/16 presented to you in April 2015, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our audit has two key objectives, requiring us to audit/review and report on your:

- *Financial statements (including the Annual Governance Statement):* Providing an opinion on your accounts; and
- *Use of resources:* Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their help and co-operation throughout our audit work.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 8 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for the 2015/16.

Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place between December 2015 and February 2016. This involves the following key aspects:

- Assessing the key risks to our audit opinion on the financial statements and our ;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

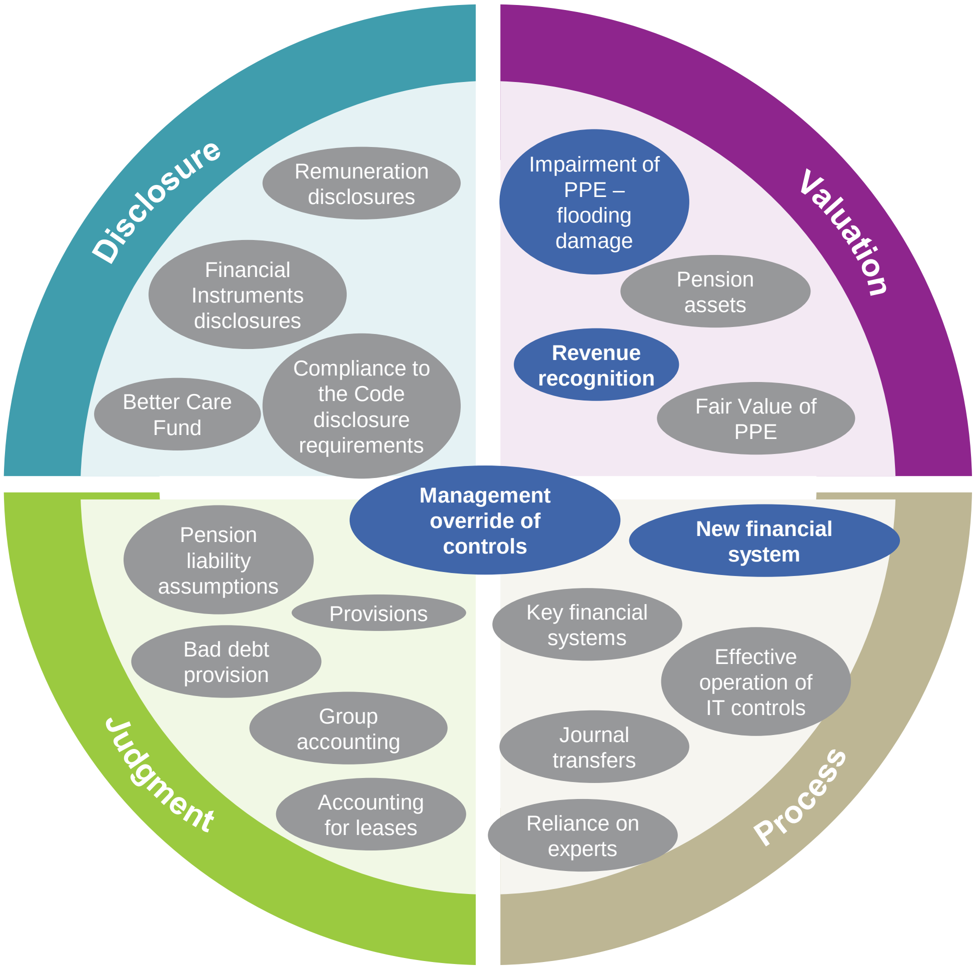
Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagrams overleaf identify significant risks, and other areas of audit focus for both the Council and the Pension Fund, which we expand on page 5. The diagrams also identify a range of other areas considered by our audit approach.

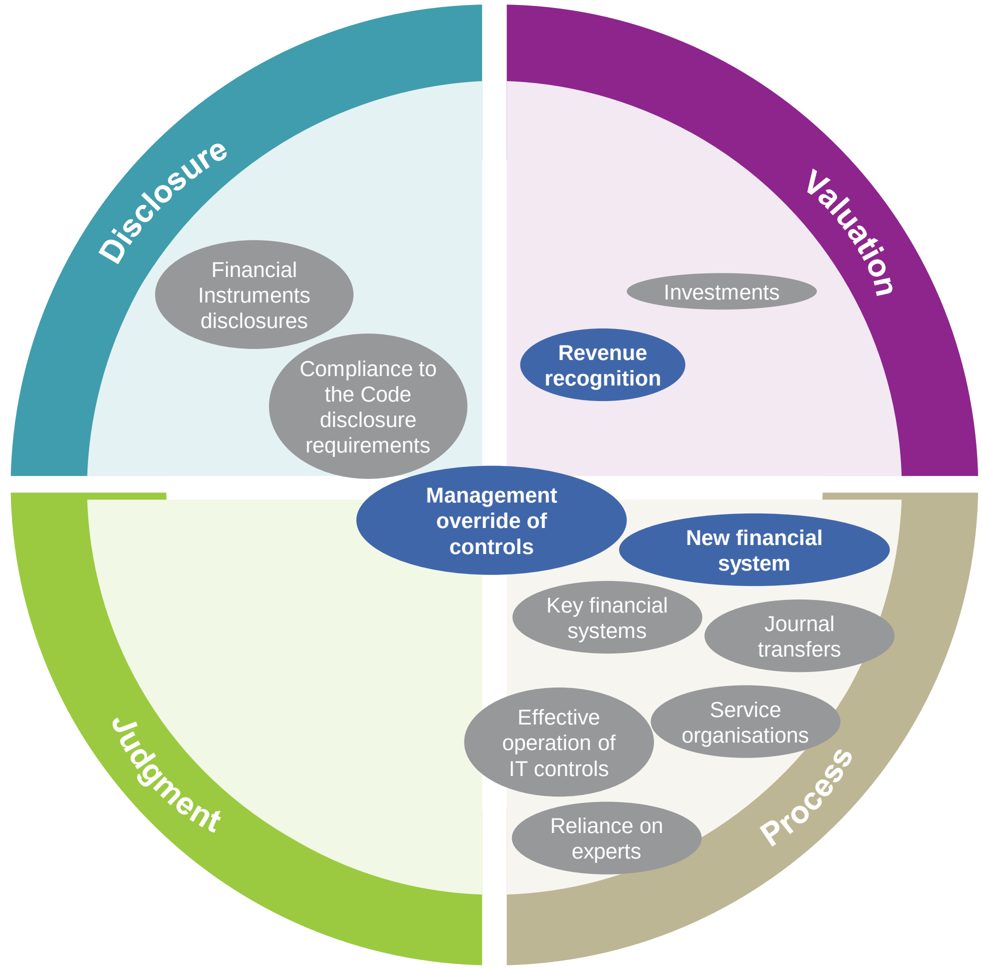
Financial statements audit planning (cont.)

North Yorkshire County Council



Keys: ● Significant risk
● Other key areas covered by our approach

North Yorkshire Pension Fund



Keys: ● Significant risk
● Other key areas covered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error.

New Financial Systems

- **Risk**

The Council and Pension Fund financial systems have been replaced during 2015/16, with a new general ledger system in place from the start of the financial year.

The implementation of a new system and the transfer of balances between systems are not routine processes, and therefore represent a significant risk to our opinion on the 2015/16 financial statements.

- **Approach**

We will review the processes in place for the implementation of the new financial systems.

We will test the transfer procedures from the old financial system closing balances as at 31/3/15 to the opening balances in the new financial systems as at 1/4/15.

Impairment of PPE due to flooding

- **Risk**

The flooding in December 2015 caused a high degree of damage in North Yorkshire and this might impact in the 2015/16 financial statements. The damage may have caused significant material impairment to some Council assets. The Council's assessment of the impairment value involves significant judgement and estimation, and will likely involve the use of a valuation expert. This impairment could have a material impact on the financial statements.

- **Approach**

We will undertake appropriate work to understand the basis upon which any impairments to land and buildings have been calculated. We will test the associated assumptions.

We will assess the independence and objectivity of the valuers/surveyors and the terms under which they were engaged by management.

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the **Council**, materiality for planning purposes has been set at £15 million for the Council's standalone accounts, and the group accounts, which equates to approximately 2 percent of gross expenditure.

For the **Pension Fund**, materiality for planning purposes has been set at £25 million.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

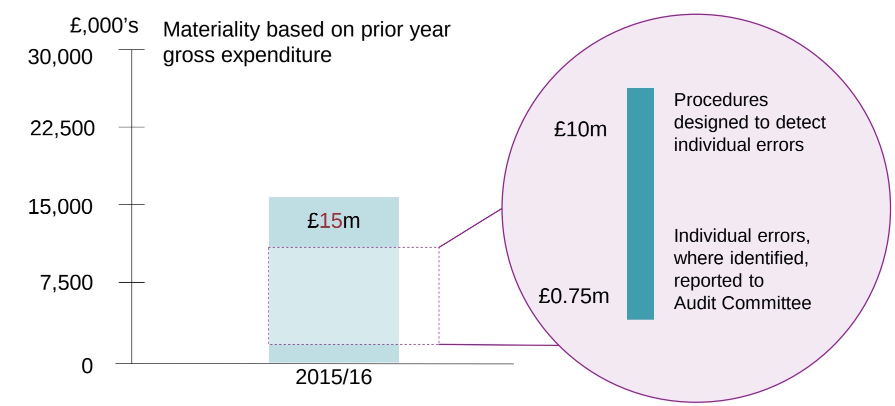
Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the **Council**, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.75 million.

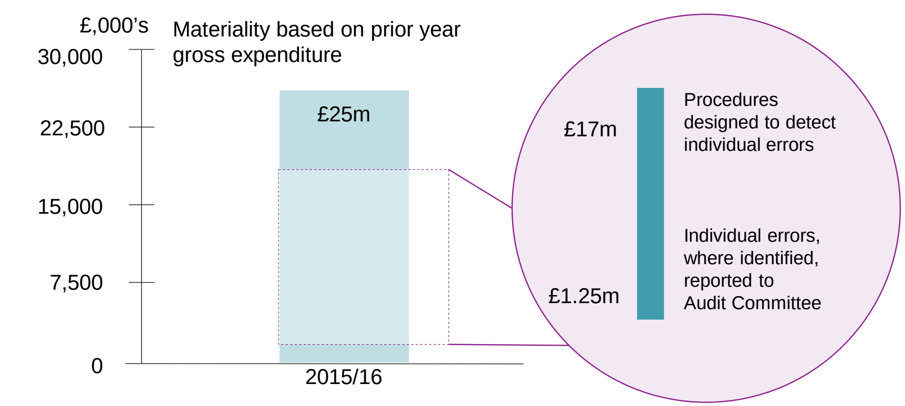
In the context of the **Pension Fund**, we propose that an individual difference could normally be considered to be clearly trivial it is less than £1.25 million.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

North Yorkshire County Council



North Yorkshire Pension Fund



Financial statements audit planning (cont.)

Group audit

In addition to the Council, we will consider whether any of the Council's subsidiary companies are significant in the context of our group audit. The prior year financial statements showed that the Council identified that it had a group relationship with four other bodies, and that three of these required consolidation into the group financial statements, as follows:

- NYnet Limited;
- Yorwaste Limited; and
- Veritau Limited.

To support our audit work on the Council's group accounts, we will consider whether we need to seek to place reliance on the work of the auditors to these subsidiaries. Where this is necessary we will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

We will report the following matters in our Report to those charged with Governance:

- Any deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- Any limitations on the group audit, for example, where the our access to information may have been restricted; and
- Any instances where our evaluation of the work the subsidiary auditors gives rise to concern about the quality of that auditor's work.

Value for money arrangements work

Background to approach to VFM work

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the body 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

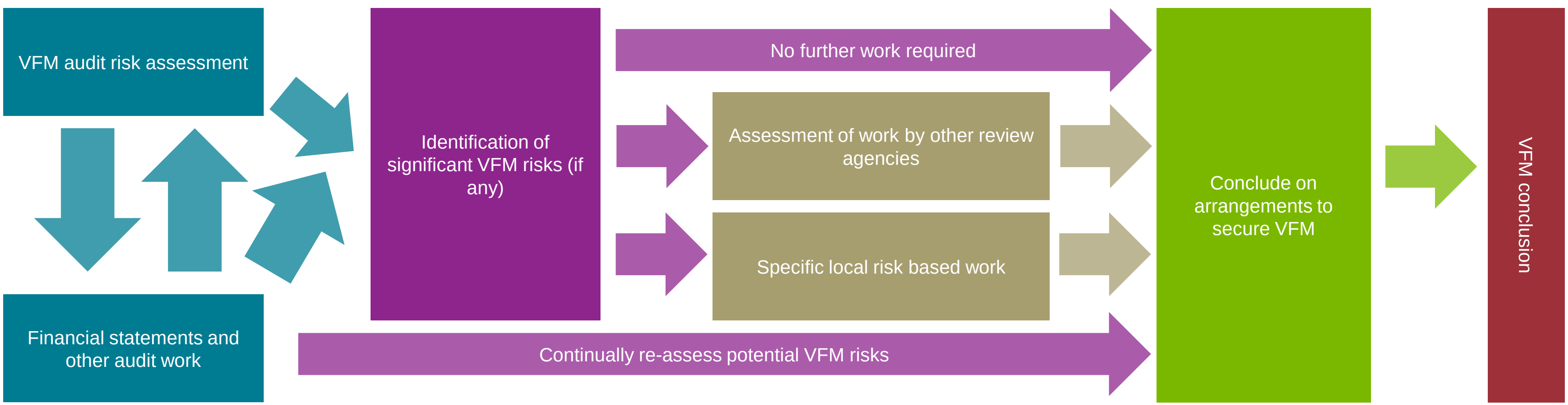
This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria. These sub-criteria provide a focus to our VFM work at the Council. The diagram to the right shows the details of this criteria.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

- **Informed decision making**
- **Sustainable resource deployment**
- **Working with partners and third parties**



Value for money arrangements work (cont.)

VFM audit stage	Audit approach
VFM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.* In doing so we consider: ■ The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ Information from the Public Sector Auditor Appointments Limited VFM profile tool; ■ Evidence gained from previous audit work, including the response to that work; and ■ The work of other inspectorates and review agencies. Local Government Association is undertaking a peer review of the Council in March 2016. Our planning approach will consider the Council's self assessment and the subsequent findings from the peer review.
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, including the Council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.
Identification of significant risks	The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'* If we identify significant VFM risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including: ■ Considering the results of work by the Council, inspectorates and other review agencies; and ■ Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage	Audit approach
Assessment of work by other review agencies and **Delivery of local risk based work**	Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk. Within this we will consider the work undertaken by the Local Government Association peer review team in March 2016. If such evidence is not available, we will instead need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include: ▪ Meeting with senior managers across the Council; ▪ Review of minutes and internal reports; ▪ Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.
Concluding on VFM arrangements	At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We are undertaking our initial VFM risk assessment and have not identified any significant VFM risks to date. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260. We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM), which forms part of our audit report.

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2015/16 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Our audit team

Our audit team will be led by Rashpal Khangura (Director), supported by Alastair Newall (Manager), and Keith Illingworth (Assistant Manager). This is our first year of appointment as your external auditor. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with key members of your finance team and the Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

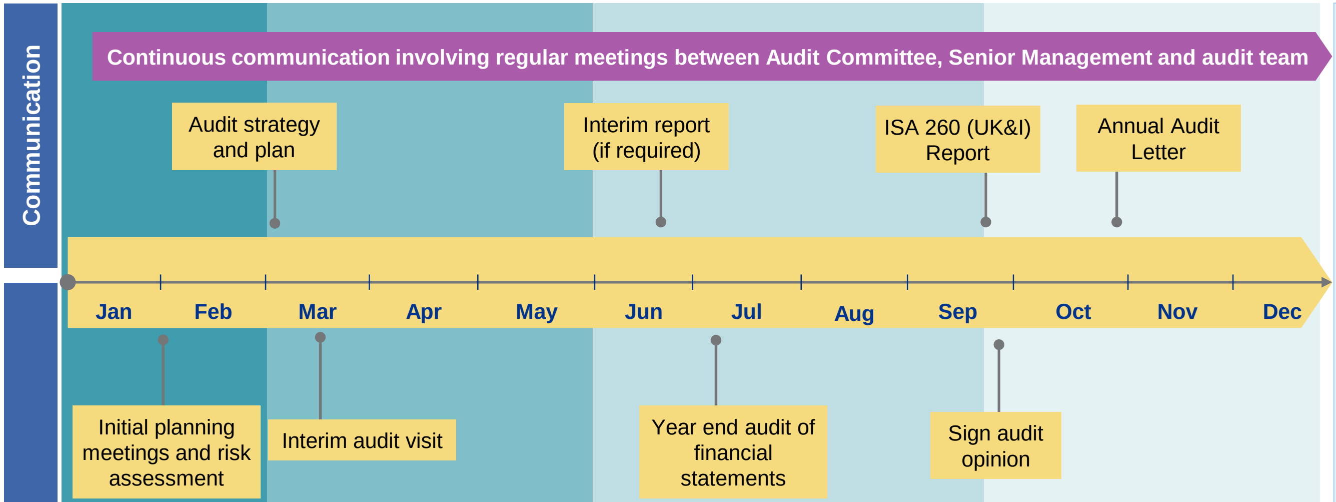
Audit fee

Our *Audit Fee Letter 2015/16* presented to you in April 2015 first set out our fees for the 2015/16 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for the Council for 2015/16 is £94,490. This is a reduction in audit fee, compared to 2014/15, of £31,497 (25%).

The planned audit fee for the Pension Fund for 2015/16 is £24,943. (2014/15 fee £24,943).

Appendix 1: Key elements of our financial statements audit approach



Planning

- Perform risk assessment procedures and identify risks
- Determine audit strategy
- Determine planned audit approach

Control evaluation

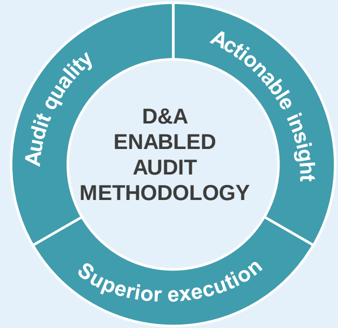
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Audit Committee reporting



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals.

Appendix 2: Audit team

Your audit team has been drawn from our specialist public sector assurance department. This is our first year of appointment as your external auditor.

Name	Rashpal Khangura
Position	Director
	‘My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion. I will be the main point of contact for the Audit Committee and Chief Executive.’

0113 231 3396

rashpal.khangura@kpmg.co.uk

Name	Alastair Newall
Position	Manager
	‘I provide quality assurance for the audit work and specifically any technical accounting and risk areas. I will work closely with Rashpal Khangura to ensure we add value. I will liaise with the Corporate Director Strategic Resources and other Executive Directors.’

0113 231 3552

alastair.newall@kpmg.co.uk

Name	Keith Illingworth
Position	Assistant Manager
	‘I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.’

0113 231 3521

keith.Illingworth@kpmg.co.uk

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of February 2016 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 MARCH 2016

PROGRESS ON 2015/16 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 2015/16 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 2015/16 Audit Plan on the 25 June 2015. The total number of planned audit days for 2015/16 is 1,308 (plus 1,010 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 2015/16 Audit Plan is progressing.

3.0 **INTERNAL AUDIT PLAN PROGRESS BY 31 JANUARY 2016**

3.1 The internal audit performance targets for 2015/16 were set by the County Council's client officer. Progress against these performance targets, as at 31 January 2016, 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 2016 (the cut off point for 2015/16 audits). **Appendix 2** provides details of the final reports issued in the period. A further four 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, 42 cases of suspected fraud or malpractice have been referred to Veritau for investigation. 15 of these are internal fraud cases, 13 social care and 11 external fraud. A further 3 cases relate to applications for school places. A number of these investigations are still ongoing. Work is also progressing with the North Yorkshire and York counter fraud initiative which has been grant funded by the Department for Communities and Local Government (DCLG). The project involves proactive data matching designed to identify and prevent fraud losses within high risks areas such as social care, council tax, NNDR and procurement. To date the project has helped to recover fraud totalling £120.7k.

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 between 1 April 2015 and 31 January 2016 is 1,002 compared with 1,104 requests received during the corresponding period in 2014/15. The IGT is currently exceeding the performance response target of 95% for 2015/16 with 97.4% 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 46 such requests between 1 April 2015 and 31 January 2016 compared to 41 in the same period in 2014/15.

3.5 Veritau is continuing to assist with the implementation of the County Council's information governance framework. As part of this, Veritau auditors continue to undertake 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 2015/16 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 meeting of the Committee on 3 December 2015. The variations follow discussions with management and reflect changes in current priorities:

BES Integrated Passenger Transport (additional)	+5 days
CYPS Disabled Children's Service (additional)	+15 days
CYPS data matching (new)	+5 days
HAS amenity funds (additional)	+10 days
HAS community support budget – data quality (new)	+10 days
CYPS Special Educational Needs (deferred to 2016/17)	- 20 days
HAS Liquid Logic / ContrOCC post implementation review (deferred to 2016/17)	- 10 days
HAS Domiciliary Care Contracting (reduction)	- 10 days
Contingency (20 days remaining)	- 5 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 2015/16 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

5 February 2016

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

PROGRESS AGAINST 2015/16 PERFORMANCE TARGETS (AS AT 31/1/2016)

Indicator	Milestone	Position at 31/1/2016
To deliver 93% of the agreed Internal Audit Plan	93% by 30/4/16	56.60%
To achieve a positive customer satisfaction rating of 95%	95% by 31/3/16	100.00%
To ensure 95% of Priority 1 recommendations made are agreed	95% by 31/3/16	100.00%
To ensure 95% of FOI requests are answered within the Statutory deadline of 20 working days	95% by 31/3/16	97.41%

FINAL 2015/16 AUDIT REPORTS ISSUED TO DATE

Audit Area	Directorate	Overall Opinion
Information security incidents x 2	Corporate	N/A
Information security compliance (North Block)	Corporate	Reasonable assurance
Information security compliance (South Block)	Corporate	Limited assurance
Information security compliance (Belle Vue Square, Skipton)	Corporate	High assurance
Information security compliance (Manor Road, Knaresborough)	Corporate	Limited assurance
Information security compliance (Jesmond House, Harrogate)	Corporate	Limited assurance
Care home visit (Anley Hall, Settle)	HAS	Substantial assurance
Care home visit (Eden House, Filey)	HAS	Substantial assurance
Care home visit (Newhaven, Boroughbridge)	HAS	Substantial assurance
Care home visit (Pennyghael, Selby)	HAS	Substantial assurance
Care home visit (Dunollie, Scarborough)	HAS	Substantial assurance
Care home visit (Ellershaw House, Grewelthorpe)	HAS	High assurance
Care home visit (Combehay, Scarborough)	HAS	High assurance
Public health	HAS	Substantial assurance
Community support budget (data quality review)	HAS	N/A
New system interfaces	CS	Substantial assurance
Blue badges – review of security arrangements	CS	N/A
North Yorkshire 2020 – customer portal project	ICT	Reasonable assurance
Symology - general IT controls	ICT	Substantial assurance
Wireless networking security	ICT	Reasonable assurance
IT in-house system development	ICT	Substantial assurance
IT risk management	ICT	Substantial assurance
Lagan CRM system (follow up)	ICT	Substantial assurance
IT programme management (follow up)	ICT	High assurance
Action for Children contract review (follow up)	Contract	N/A

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 MARCH 2016

INTERNAL AUDIT PLAN FOR 2016/17

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 2016/17, 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 2016/17

3.1 The outline Internal Audit Plan for 2016/17 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 June.

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:

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[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 It is 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 will therefore take place through the year 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 been canvassed in preparing the outline Plan. 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, KPMG 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 2016/17 and to identify any specific areas which should be considered a priority for audit.

MAX THOMAS
Head of Internal Audit
Veritau Limited
County Hall
Northallerton

3 March 2016

Background Documents: None

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

NORTH YORKSHIRE COUNTY COUNCIL
INTERNAL AUDIT PLAN – 2016/17

CORPORATE / CROSS CUTTING	**Days**
2020 North Yorkshire review of projects	**30**
To provide advice, guidance and challenge to the 2020 NY programme. The allocation of time may include assurance on overall monitoring and governance arrangements or support to specific work streams and aspects of the programme. We will review a sample of schemes to consider the extent to which 2020 NY procedures, aims and objectives are being delivered.	
2020 Finance	**20**
To provide advice, guidance and challenge to the programme. We will examine whether the 'new ways of working' are delivering the expected outcomes.	
Data quality	**25**
A review of the Council's arrangements to ensure data quality in key performance information, including review of a sample of indicators.	
Performance management	**20**
A review of the effectiveness of the Councils performance management framework.	
Information governance (data breaches)	**20**
An allocation of time to investigate significant data security incidents and/or provide support to other internal investigations.	
Information governance (data security compliance)	**30**
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	**15**
A review of the Council's risk management processes.	
Payroll / HR	**20**
A review of payroll / HR controls and processing. We will use the IDEA data analysis tool to focus on a number of key risk areas.	
Leaver process	**20**

A cross cutting review of processes that take place when a member of staff leaves or moves post. The review will examine processes other than salary payments including IT access, the control of physical assets and access to premises.

Insight performance dashboard	**15**

A review of the extent to which this system is being used to manage team performance and the arrangements for ensuring quality of data.

Employment documentation	**15**

A review of the effectiveness of the controls in place to ensure employment record keeping is complete and effectively supports occupational health, disciplinary and other relevant HR processes.

IDEA data analytics and data matching	**10**

An allowance of time to undertake data matching and analytics to review large scale data sets to improve data quality and to identify data inconsistencies

Total – Corporate / Cross cutting	**240**

HEALTH AND ADULT SERVICES	Days

Liquid Logic and ContrOCC **25**

The audit will review a sample of key controls in the Liquid Logic and ContrOCC systems. We will also review the key controls in respect of the new Provider Portal which is scheduled to be introduced in late 2016.

Liquid Logic and ContrOCC (post implementation review) **15**

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

Direct payments **30**

A review of the systems and procedures put in place by the Council to ensure Direct Payment Agreements are managed in line with the Council's approved policies. This will include a review of the management of the risks around Direct Payments.

Court of Protection **25**

A review of the effectiveness of the key controls in place to manage the Court of Protection risk areas.

Financial assessments **15**

A review of the effectiveness of the key controls in place for Financial Assessments, and their relationship with the wider social care assessment processes.

Residential care homes **30**

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 at least 6 care providers (both external and Council operated) to provide assurance that appropriate financial controls are in place and operating effectively.

Best practice and benchmark review **20**

To select an area (agreed with HAS management) to review the practices and processes that ensure best value and assess quality of performance.

Continuing healthcare	**20**

To review the processes and controls in respect of the Council's responsibilities towards Continuing Healthcare.

New models of care	**15**

A review of the Harrogate Vanguard scheme to identify what worked well and any 'lessons to learn' for future collaboration with the NHS.

Public health	**20**

A review of the effectiveness of the arrangements in place to deliver Public Health outcomes in North Yorkshire. The specific scope to be agreed with management as part of planning for the audit.

Total – Health and Adult Services	**215**

BUSINESS AND ENVIRONMENTAL SERVICES	**Days**
Highways maintenance contract	**25**
A review of the key risk areas in respect of the highways maintenance contract with Ringway. The audit will include follow up of previously agreed actions.	
Allerton Waste Recovery Park	**20**
A review of the developing arrangements and management of key risks for the Allerton Waste Recovery Park scheme.	
Integrated passenger transport	**20**
A review of the controls and processes associated with the delivery of public transport provision.	
Bus subsidy	**20**
A review of the management of the key risks in the delivery of the Bus Subsidy strategy. We will specifically review Community Transport Services.	
Total – Business and Environmental Services	**85**

CENTRAL SERVICES	<u>Days</u>
Business continuity and disaster recovery	**15**

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

Local Welfare Assistance scheme	**15**

A review of the management arrangements in place to ensure the scheme delivers the intended aims and objectives and to minimise the risks of fraud.

Resettlement of refugees	**15**

NYCC is the accountable body for monies being received from central government to help house and resettle refugees. We will review the effectiveness of the Council's plans and management arrangements for the scheme.

Payment Card Industry Data Security Standard	**15**

To review the arrangements the Council has in place to comply with the requirements of PCI DSS.

Main accounting	**25**

A review of the arrangements for managing and maintaining the financial ledger.

Budgetary preparation and management	**25**

A review of recently implemented budget preparation processes and the systems for budget monitoring and reporting. The new processes should be embedded within the authority and the audit will test the robustness of the new arrangements.

Creditors	**25**

The audit will include a review of the new P2P processes and the roll-out of the system. In addition it will review any other systems in place to process creditor payments. The controls in place for managing changes to supplier's bank details will also be examined.

Debtors and Income Management System **30**

A review of the systems for raising debtor invoices and the arrangements for debt recovery. The audit will include a review of HAS debts to fully understand the possible causal factors that have contributed to problems in the recovery of outstanding debts.

Total – Central Services	**165**

CHILDREN AND YOUNG PEOPLE'S SERVICES — Days

Catering service — **20**

A review of the adequacy and efficiency of the current arrangements for submitting timesheets and the impact of services changes as a result of the service review following the last audit.

High Needs SEN — **25**

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.

Post 16 education — **20**

To provide assurance that post 16 funding has been allocated and applied in accordance with funding requirements

Direct payments - follow up — **12**

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.

Free school meals data match — **30**

An exercise using Interactive Data Extraction and Analysis Tool (IDEA) to match district council benefits data to free school meal entitlement to identify potential non-claimers. Identification of additional entitlement will increase pupil premium funding for schools.

Schools Financial Value Standard (SFVS) — **12**

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

Schools themed audits — **65**

Provision for 3 themed audits. 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. Themed audits will cover information governance, income and lettings, and budget management. There will also be a small additional allowance for visits to individual schools with known issues.

Audit support and advice to schools	**30**

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

Total – Children and Young People's Services	**214**

COMPUTER AUDIT	Days
Programme of IT audits developed in consultation with Audit North.	**90**
Provision to provide support and advice on IT audit matters.	**10**
Total – Computer Audit	**100**

PROCUREMENT AND CONTRACT AUDIT	Days
Membership of Procurement Operational Group	**5**
An allocation of time to attend and support meetings of the Procurement Operational Group.	
Support to the development of the Procurement Strategic Action Plan	**10**
To provide advice, guidance and challenge to the development and implementation of the procurement strategic action plan.	
Specific procurement and contract management based reviews	**70**
An allocation of time to undertake individual procurement and contract management reviews.	
Total – Procurement and Contract Audit	**85**

NORTH YORKSHIRE PENSION FUND	<u>Days</u>
Altair System	**10**
To provide assurance that the design of controls maintains the confidentiality, integrity and availability of information processed.	
Pension Fund Investments	**10**
The audit will examine the controls in respect of Pension Fund investments	
Pension Fund Income	**15**
The audit will review the processes in place for the collection of income from member organisations and the information provided to enable the calculation of benefits under the various schemes	
Pension Fund Expenditure	**15**
The audit will review the processes for paying pensions, in particular reviewing payment of new pensions and changes to pension entitlement	
Total – North Yorkshire Pension Fund	**50**

COUNTER FRAUD AND CORRUPTION	Days
An allocation of time to support the provision of counter fraud services, including:	**300**

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.

Total – Counter Fraud and Corruption	**300**

INFORMATION GOVERNANCE	Days
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	**612**
Total – Information Governance	**612**

OTHER CHARGEABLE AUDIT WORK	**Days**
Follow up	**30**

Provision to follow up previously agreed audit recommendations.

Corporate governance strategy	**5**

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	**12**

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	**30**

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	**3**

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	**36**

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	**30**

Provision to undertake additional work in response to:

- specific requests from the Corporate Director – Strategic Resources (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.

Total – Other Chargeable Audit Work	**136**

SUMMARY OF AUDIT DAYS 2014/15 - 2016/17

Audit Area	**2016/17**	**2015/16**	**2014/15**
Corporate	240	180	290
Health and Adult Services	215	205	130
Business & Environmental Services	85	100	85
Central Services	165	185	125
Children & Young People's Services	214	240	445
Computer Audit	100	100	100
Procurement and Contract Audit	85	90	85
Pension Fund	50	50	50
Counter Fraud & Corruption	300	310	330
Information Governance	612	700	745
Other Chargeable Audit Work	136	158	185
Non Audit Duties	---	---	10
TOTAL DAYS	**2202**	**2318**	**2580**

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 MARCH 2016

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 2016 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.

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 2016

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 (including a review of fraud risks associated with Blue Badges);
- Providing advice and comments 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

12 February 2016

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 2016

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Emergency Planning/ Service Continuity	Substantial Assurance	The audit was a health check of progress made to implement key actions identified in the previous audit. These covered: • the completion of documentation and the use of a standard format. • management buy in at directorate level and training within directorates • the collation of corporate risks and corporate priorities.	June 2015	Not all of the agreed actions from last year's audit have been achieved in the timescales given, although good progress has been made in refreshing the council's approach to business continuity. There is good evidence that the Emergency Planning Unit (EPU) are working towards the remaining incomplete actions. A detailed business continuity policy is not in place and the current arrangements therefore do not provide a comprehensive framework for business continuity management.	**One P2 action was agreed** **Responsible Officer** Senior Emergency Planning Officer The policy will be updated to provide the required framework
B	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 2015	The absence of sufficient detail on claims submitted using MyView meant it was difficult to verify journeys and/or to confirm that mileages claimed were reasonable. This also meant that claims could not easily be compared to claims for attending meetings at other public bodies.	**Two P2 actions were agreed** **Responsible Officer** Corporate Director - Strategic Resources As a result of the lack of details recorded by some members when completing their claim forms, the Corporate Director – Strategic Resources has requested that

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						additional audit testing be carried out on claims and a further report produced. The Council will fully respond to the findings when all work has been completed.
C	Debtors	Substantial Assurance	The Council raises approximately 59,000 invoices each year. The scope of the audit included examining whether: • effective action was being taken for debts over 30 days old in accordance with the procedures set out in the Finance Manual • reasons existed where action had not been taken on overdue debts or for other delays in recovery • debts that have been written off have been done so in line with the procedures set out in the Finance Manual.	August 2015	Procedures for monitoring debts were found to be generally effective. Where there had been delays in recovery suitable reasons existed and these were well documented. Debts were written off in line with agreed procedures. In some areas delays in raising invoices were identified. These delays may impact on the Council's ability to recover amounts due. It was also found that some payroll overpayments had been recovered using debtors accounts which may not be the most efficient method for recovering this type of debt.	**One P2 and one P3 action was agreed** **Responsible Officer** Credit Control Manager The need to raise invoices promptly has been highlighted with the relevant directorates. A report will be prepared for Finance SRMT outlining the possible issues in raising debtors accounts for payroll overpayments.
D	Creditors	Substantial Assurance	Approximately 235,000 invoices were processed through the Creditors system in 2013/14. Due to the impending introduction of the new version of Oracle and the expected system changes, the scope of	August 2015	There is a detailed process for verifying changes to supplier bank accounts. However these checks are not always completed or properly documented.	**Two P2 and one P3 action were agreed** **Responsible Officer** Business Support Manager

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			this audit was limited to examining whether: • processes for changes to bank account details are in place and effective • goods ordered via the Lagan/online form are placed in line with the procedures set out in the Finance Manual and that the related transactions and processes are completed in a timely and efficient manner • changes to the Barclaycard process agreed following the previous audit have been implemented effectively.		The Lagan system and online order submission form does not prevent employees from placing orders in somebody else's name and goods receipting in this system does not consistently ensure that goods have actually been received prior to payment. The agreed changes to the Barclaycard procedures have been implemented.	Checks to verify changes to bank account details will be completed in all cases and details of these actions will be documented. A query has been placed with the Lagan team to ask if Lagan can automatically populate the online order form based on login details. Staff involved in the processing of invoices using Lagan will be reminded of the need to chase up and record goods received information before invoices are sent for payment.
E	Feeder Systems	High Assurance	There are 13 feeder systems to Oracle Financials. 5 feeder systems interface with the General Ledger, 7 with Accounts Payable and one with Accounts Receivable. The audit tested all the feeder systems in the period September to October 2014 to ensure that the interfaces had been carried out in a timely manner. Additionally, three feeder systems were tested to ensure that the imported data had been reconciled to the relevant feeder system, and that	March 2015	Feeder system controls were found to be effective.	**No actions identified**

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			the data was authorised, accurate, complete, reasonable and secure.			
F	New system interfaces	Substantial Assurance	The audit reviewed the controls put in place since April 2015 for system interfaces. A sample of feeder systems was reviewed to ensure that: • all the feeder systems produced control totals • Oracle Financials produced input totals • there was evidence that control totals between the interface and Oracle were reconciled before upload • the directorates were informed of any invalid records • interface holding/suspense accounts were monitored and cleared on a regular basis.	January 2016	Overall processes were found to be effective with few invalid records created or records posted to suspense. However, since the introduction of the new version of Oracle significant numbers of records have been posted to suspense from the payroll system ResourceLink. This has resulted in additional work to clear them.	**One P2 Action was agreed** **Responsible Officer** Head of Business Support & Head of ESS The number of errors from the payroll interface has now substantially reduced. The backlog of outstanding errors will be cleared by the end of the financial year. Progress will be monitored on a monthly basis.
G	North Yorkshire Pensions Fund - 2014 scheme	Substantial Assurance	The audit reviewed the systems and processes which have been put in place following the introduction of the 2014 scheme. The following areas were tested: • for those members who had retired since April 2014 that the retirement benefit had	August 2015	Scheme employers have been provided with guidance and training on the requirements of the new scheme. In some cases transfers values received from other schemes had not been correctly allocated to the	**Two P2 and two P3 actions were agreed** **Responsible Officer** Technical Manager – North Yorkshire Pension Fund

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			been correctly calculated based upon the information provided by the scheme employer; and • scheme employers had been informed of the requirements of the NYPF to be able to calculate a member's retirement benefit and to be able to prepare Annual Benefit Statements.		appropriate scheme within NYPF, and some SU5 Leaver Forms had not been independently authorised. Forms and letters issued by the fund could also be improved to highlight the need for scheme employers to check the accuracy of supplied data.	Forms and letters are to be reviewed. Detailed checking procedures are in place for transfer values and SU5 forms will be returned if they do not comply with agreed authorisation processes.
H	North Yorkshire Pension Fund Investments	High Assurance	The audit reviewed the insurance cover, control reports and annual reports for all investment managers, and the external audit of investment fund control procedures.	May 2015	Effective controls were found to be in place.	**No actions 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	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

3 MARCH 2016

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 2015/16 together with proposed actions. These areas were considered at the meeting of this Committee on 5 March 2015. The relevant part of the SoA is attached as **Appendix A** together with comments and updates on progress since that meeting.

3.3 In addition to the update of the SoA in Appendix A, it is worth noting the County Council has agreed that the LGA will conduct a Corporate Peer Challenge (CPC) during 8th to 11th March 2016. The aim of this review will be to test not only the plans we have in place to take us to the year 2020 and beyond but also the confidence we have in achieving those ambitions. The confirmed peer team will be formed of:

- Pete Rentell – LGA representative
- Gill Steward – Interim CEO, West Sussex County Council (lead peer)
- Robert Flinter – Deputy Director of People and Head of Transformation, Staffordshire County Council

- Rob Aycliffe – Head of Policy & Performance, Gloucestershire County Council
- Colin Noble – Council Leader, Suffolk County Council

Upon completion of the review, the LGA will share their initial findings verbally with the Leader and the Chief Executive on the final day of the review; this will then be followed up a few weeks later with a formal letter report. Publishing the report will be at the Council's discretion, although the LGA strongly recommend it becomes a public document.

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 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 detailed 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 Performance Management.

4.6 The main changes to the risk register since March 2015 (date of last progress report to the Committee) are as follows:

- Three risks were deleted from the register at the last review. They are Superfast NY, Better Together (the collaboration agreement has been signed with Selby District Council) and Opportunities for Devolution (this risk is still included on BES Directorate risk register).
- Ranking changes occurred on the Information Governance and Performance Management risks where future actions are thought to improve the risk. This is because this year we have more confidence in information governance actions being effective. Examples include mandatory training packages that have been refreshed and less mistakes will be made as employees make the link between the training and the application of the knowledge learnt. Performance Management now has a performance management framework including service planning in place. As the revised framework is adopted across the County Council performance management should improve.
- The Central Services Savings Plan risk has increased on the 1st ranking from green to amber. This demonstrates concern but that the risk is still under control.

4.7 Some examples of actions that have been completed relating to particular risks since the last report to the Committee include:

- The information governance suite of policies have been reviewed, revised, consolidated and simplified.
- The information governance e learning training packages have been refreshed.
- The data sharing protocol with partner agencies has been developed and implemented – many organisations have signed up including City of York Council, North Yorkshire Police and most of the District Councils.
- The Stronger Communities team continue to develop greater community capacity by providing engagement events with communities, having a community project toolkit in place and continuing their work with other relevant council services for example, the Targeted Prevention shared outcome framework and grant schemes.
- For Property Services, there has been a restructure of the service, a new asset management system has been introduced, a review of the traded services arrangements, and work has been carried out linked to the 2020 Property Theme including Modern Council.

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

3 March 2016

NORTH YORKSHIRE COUNTY COUNCIL APPENDIX A

STATEMENT OF ASSURANCE 2014/15
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 a Chief Executive and member of the 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 the Central Services Directorate that support the achievement of both Corporate and the Directorate’s objectives.

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 a Chief Executive, I have responsibility for reviewing the effectiveness of the system of internal control and risk management processes in the 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 (Directorate Risk Register)
- relevant self-assessments of key service areas within the Directorate
- 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 has a full set of business continuity plans and that they will continue to be refreshed as and when necessary and at least on an annual basis.

I also confirm that Central Services Directorate understands the importance of keeping sensitive information secure and has the appropriate policies and procedures in place

I am satisfied that a sound system of internal control has been in place for the financial year ended 2014/15 in the Central Services Directorate. Nevertheless, during the year my review work has identified some areas for further development 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 2014/15 (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 the Directorate for which I am responsible I can confirm that I have made due and careful inquiry and that the statements relating to my Directorate, in particular those contained in Section 3 of the Document, fairly represent the key elements of the internal control environment within my Directorate. I also confirm that there are no matters relating to my Directorate 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:

Richard Flinton
Chief Executive – Central Services

Date:

AREAS FOR FURTHER DEVELOPMENT IDENTIFIED CENTRAL SERVICES DIRECTORATE		
Areas for Development as Identified in 2015	**Action Proposed**	**Action Taken**

Medium Term Financial Strategy
 	
The MTFS, as agreed in February 2015, took the County Council up to 31 March 2020. However, this was before the General Election, the impending emergency budget on 8 July and the expected spending review thereafter.
 	
There is therefore a need to ensure that the budget for 2016/17 and the refreshed MTFS reflect the latest projections on both funding and spending pressures.
	a) Budget monitoring to continue as part of the quarterly reporting regime and to include the savings requirements as set out in 2020 North Yorkshire.
	b) A series of fundamental budget reviews to be initiated during 2015/16 in order to ensure closer alignment between budget and council priorities.
	c) Refinement of MTFS in light of emergency budget on 8 July 2015 and information which flows from that statement (e.g. public health cuts post consultation etc.
	d) Realignment of MTFS in light of anticipated spending review in Autumn of 2015.
	e) Savings opportunities as part of integrated working with Health / Better Care Fund to be pursued during the year and before February 2016.
	f) Close monitoring and modelling of the impact of the Care Act to be carried out and lobbying of Government to ensure adequate funding is provided.
	g) Consideration of investment requirements and proposals in order to assist in delivery of savings and / or delivery policy priorities. Such proposals to be articulated in the budget / MTFS and quarterly reports in February 2016.
		• The MTFS has been updated as a result of the four year settlement put forward with the budget. A savings gap to the year 2020 still remains, although immediate pressure has been somewhat relaxed.
		• As part of the MTFS and to help identify opportunities to bridge the 2020 savings gap, four themes have been created:
		  ○ Savings & efficiencies
		  ○ Growth in the county
		  ○ Commerciality
		  ○ Improved cross-organisational working.
		• As a result of 2020 North Yorkshire, where savings have been achieved the service budgets have been reduced accordingly. Through 15/16, the quarterly finance & performance reports have reports on the progress.
		• Fundamental budget reviews have been carried out for high risk areas, e.g. Waste Management. The reviews have helped to highlight potential for further saving and additional work is required to follow these through.
		• Plans are taking shape on creation of an investment committee panel to prioritise

		and challenge business cases to ensure they deliver a return on investment.
2020 North Yorkshire Programme 2015/16 sees the first full year of the 2020 North Yorkshire Programme and it is therefore essential that the Programme is implemented in line with the benefits outlined. The Programme Management office is provided within Central Services and senior leadership within Central Services is important.	a) Identification of pinch points and interdependencies between elements of the 2020 North Yorkshire Programme. Such issues to be considered and prioritised where necessary. b) Resourcing requirements including investment proposals to be identified where they can help improve the delivery of the 2020 North Yorkshire Programme. c) Further develop good practise in production of business cases, ensuring consistent application across the council. d) Ensure on-going Member engagement at all levels from Executive through Overview and Scrutiny Committees and to all Members through Member's Seminars etc. e) Identify opportunities to highlight cultural impact of the 2020 North Yorkshire Programme and to engage wider staff participation.	• The 2020 NY continues to deliver broadly the benefits identified by each project within, including the cashable elements. • In conjunction with the MTFS, the programme is reviewing the process for idea generation and business case preparation in order to help find opportunities to achieve the 2020 savings gap. • Additionally, the focus has broaden to be more than a savings programme with a real emphasis on bring about transformation, through 2020 Modern Council. Not only is this rolling out new IT kit but it is also embedding new ways of working, e.g. through video conferencing.
Property Whilst the property workstream is a cross cutting theme for the 2020 North Yorkshire Programme, there is also a need to establish a successor contract to the current Jacobs contract for provision of property design and management.	a) Develop proposals for property rationalisation with clear linkages to flexible working, improved information technology which is aligned with service requirements across the council. Such proposals to be considered in autumn 2015. b) Clarify the relationship between "landlord" and "service tenants" including the centralisation of budgets relating to property across the council. c) Award the contract for property design and management and successfully manage the transition from the existing	• Initial plans have been developed for the Northallerton, Selby and Scarborough areas although more discussions are due with partners and services within the council. • Additional funding has been provided within the 2016/17 budget to carry out some of the required building works as part of the rationalisation. • Working with the 2020 Modern Council programme, the Property Programme will drive more efficient use of property through

	contract to the new contract which comes into effect on 1 April 2016.	rationalisation and, where possible, shared use of service delivery and office space. In part this will be facilitated by more efficient working practices and better use of ICT so the deployment of new ICT kit has complemented. • The property design and management contract has been successfully award to Mouchel, who have begun work to mobilise the contract from 1st April 2016. Work is ongoing with both Mouchel and Jacobs to ensure a smooth transition between providers.
Superfast North Yorkshire Whilst the rollout of Superfast Broadband continues across North Yorkshire with the existing BT contract, there remains a shortfall of up to 10% which will require further intervention.	a) Complete the rollout of phase 2 with BT under existing contract. b) Deliver the requirements under ERDF including support to business as required in order to ensure that no funding needs to be paid back. c) Identify optimum opportunities for addressing the remaining 10% of the county which is not planned to receive Superfast Broadband.	• Superfast North Yorkshire (SFNY) continues to bring broadband improvements across North Yorkshire, despite the challenges of funding, technology and State Aid. • SFNY achieved superfast broadband coverage of 86% by April 2015 during Phase 1 and is on track under Phase 2 to deliver 89% by the end of 2016 and 90% by the middle of 2017. • Proposed Phase 3 plans could see this lifted to 95% by the end of 2019. • An option for a Phase 4 to provide improved broadband for the final 5% is being considered for inclusion once Phase 3 outcomes are known, probably in 2016.
Information Governance Information Governance continues to be a	A series of actions will take place which continue in line with previous strategies a) Further Information Governance sweeps by Veritau and disciplinary	• Information Governance sweeps by Veritau continue to take place. Unfortunately human errors continue to happen and so work is on-going to raise awareness,

stubborn issue despite significant profile given to the issue. This is primarily as a result of greater use of electronic information and a heightened awareness and reporting within the council of incidents.	actions being pursued against those where appropriate b) Rollout of the refreshed training for Information Security and other related material before the end of 2015. c) Implementation of the data sharing protocols between statutory partners and sharing of good practise to assist information sharing (rather than obstructing information exchanges). d) On-going communications to staff to ensure good Information Governance including messages from Management Board and associated campaigns	provide guidance and to maintain unannounced compliance audits. • The refreshed training for in depth mandatory online learning courses has been carried out. All identified employees must complete the training by the end of March 2016 otherwise their annual increment could be in jeopardy. • The data sharing protocols have been signed by various agencies. Work is on-going to extend the list of signatories. • Key messages continue to be given in order to maintain awareness raising.
Delivery of savings / improvements across Central Services Various savings projects and initiatives are being led within Central Services which are contributing to 2020 North Yorkshire and related initiatives.	a) Identify and implement opportunities for savings and improvements between the County Council and Selby District Council as part of the Better Together Programme. b) Implementation of the 2020 Finance Programme to improve financial systems and priorities financial support to greatest areas of risk. c) Pursue opportunities to rationalise business support staffing and make further savings through smarter procurement where spending can be aggregated and centralised. d) Joining up of support services so that Managers across the council find it easier (for example by using feedback)	• The Selby Better Together Programme continues to deliver benefits and most recently the T&C services have been combined to provide increased efficiency and effectiveness. • The 2020 Finance Programme has delivered the technical roll out of the new finance system Oracle Financials and online forecasting. Work is ongoing to ensure budget managers are sufficiently trained to use this new system.

APPENDIX B

Central Services Directorate

Risk Register: **month 0 (Sep 2015) – summary**
Report Date: 19th November 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 unacceptable levels of 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	L	M	L	H	**1**	5	31/03/2016	M	L	M	L	M	**4**	Y	CD SR
◄►	**15/11 - 2020 North Yorkshire Change Programme**	Failure to successfully implement the Programme and Modern 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**	16	31/10/2015	L	H	H	H	M	**3**	Y	All Mgt Board
◄►	**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**	9	30/06/2015	L	L	L	M	H	**3**	Y	CSD ACE Selby

Central Services Directorate

Risk Register: **month 0 (Sep 2015) – summary**
Report Date: 19th November 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 provision for children, young people and families, community transport and prevention services for older and vulnerable adults	Chief Exec	CSD AD PP	M	L	H	M	M	**2**	10	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**	3	31/07/2016	M	M	L	M	L	**4**	Y	CSD Mgt Team
◀▶	**15/180 - Customer Programme**	Failure to develop and implement Customer Programme such that our approach meets the needs and demands of our customers and supports the councils' (NYCC and Selby) necessary service redesigns and savings.	Chief Exec	CSD ACE Selby	M	M	M	H	M	**2**	2	30/11/2015	M	M	M	M	M	**4**	Y	CSD ACE Selby
▼	**15/166 - Organisational Performance Management**	Failure to align the performance management framework with the Council strategy and/or use the correct metrics to measure performance results in reduction in service performance, efficiency and effectiveness; reduction in value for money; loss of reputation and suboptimal financial savings	Chief Exec	CD SR	M	M	M	H	M	**2**	7	31/12/2015	L	M	M	M	M	**5**	Y	CD SR
◀▶	**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**	8	31/03/2016	L	M	M	M	H	**3**	Y	CSD SR HoHSRM

Central Services Directorate

Risk Register: **month 0 (Sep 2015) – summary**
Report Date: 19th November 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
◀▶	**15/29 - 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**	6	31/07/2016	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	M	M	M	M	M	**4**	4	30/09/2016	M	M	M	M	M	**4**	Y	Chief Exec
▼	**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	M	L	M	M	M	**4**	13	30/04/2015	L	L	M	M	M	**5**	Y	AD SR (CYPS) & Prop

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

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 MARCH 2016

ACCOUNTING POLICIES

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

1.1 To review the changes to the County Council's Accounting Policies for the current financial year 2015/16

1.2 To note potential changes in the pipeline that are likely to impact on future year's Accounting Policies and the Statement of Final Accounts.

2.0 BACKGROUND

2.1 Part of the Audit Committee's Terms of Reference is to review changes in accounting policy.

2.2 The County Council's accounting policies are set out in the annual Statement of Final Accounts (SOFA) and have been developed to comply with the *Code of Practice on Local Authority Accounting in the United Kingdom* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). They have been based on International Financial Reporting Standards (IFRS) since 2010/11. An updated Code of Practice, applicable for 2015/16 was issued in March 2015.

2.4 In addition to considering required changes to the County Council's accounting policies for 2015/16, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2016/17 and beyond) to bring to the Committee's attention.

3.0 CHANGES IN ACCOUNTING POLICY FOR 2015/16

3.1 The need for changes in accounting policy can arise from:

(i) mandatory changes under the annual *Code of Practice on Local Authority Accounting* which require a new or revised accounting policy to be adopted by all local authorities

(ii) changes within the overall framework of the *Code of Practice* but where the policy to be adopted is discretionary and is dependent upon interpretation of local circumstances

3.2 Changes required to the County Council's accounting policies for 2015/16, therefore arise as a result of the updated IFRS based *Code of Practice on Local Authority Accounting* issued by CIPFA in March 2015.

3.3 A supplementary update to this 2015/16 *Code of Practice* has also been issued to reflect the further developments to statutory accounting and disclosure requirements which have taken place since its publication in March 2015.

3.4 Changes reflected in the 2015/16 updated Code and any subsequent supplementary updates do, on the whole, have to be incorporated into the County Council's accounts but do not necessarily impact on the County Council's accounting policies. This is because the changes are principally around additional or changed disclosure notes, points of clarification and additional guidance etc.

3.5 The only change to the *Code of Practice* that impacts on the County Council's 2015/16 Accounting Policies concerns Fair Value Measurement as set out in **Appendix A**.

3.6 The Accounting Policies ultimately determined for 2015/16 will be reported to Members on 14 July 2016 as part of the report accompanying the draft SOFA for 2015/16. At this stage, therefore, Members are asked to note and review this one change in principle.

3.7 **Appendix A** also lists other key (but limited) changes to the latest 2015/16 *Code of Practice on Local Authority Accounting* which will need to be considered and, where appropriate, reflected in the SOFA for 2015/16 or subsequent years.

4.0 POTENTIAL CHANGES IN THE PIPELINE FOR FUTURE YEARS

4.1 CIPFA have recently consulted on a draft *Code of Practice on Local Authority Accounting* for 2016/17 and provisional changes for future years beyond 2015/16, with the key potential changes set out in **Appendix B**. The key change relates to Transport Infrastructure Assets.

4.2 The extent to which future changes will actually be fully implemented by CIPFA remains uncertain however and will be subject to further confirmation and guidance.

5.0 RECOMMENDATION

5.1 That Members:

(i) review the 2015/16 change in accounting policy required to comply with the 2015 'Code of Practice on Local Authority Accounting' (**paragraph 3.5** and **Appendix A**).

(ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2016/17 onwards) (**paragraph 4.1** and **Appendix B**).

GARY FIELDING

Corporate Director – Strategic Resources

County Hall
Northallerton

3 March 2016

APPENDIX A

CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING 2015/16

1.0 **Introduction**

1.1 There have been few significant changes made to the IFRS-based Code of Practice on Local Authority Accounting for 2015/16.

2.0 **IFRS Code Change resulting in changes to an Accounting Policy – which is applicable to the County Council**

3.0 Fair Value Measurement (IFRS13)

3.1 IFRS 13 – Fair Value Measurement has been adopted by the 2015/16 Code of Practice. The introduction of IFRS 13 has changed and made more consistent the definition of Fair Value across various types of financial and non-financial assets.

3.2 IFRS 13 defines Fair Value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". The definition thus requires that when measuring an asset at fair value consideration is given to the most advantageous market in which the asset could be traded, ignoring the intended use of the asset by its owner.

3.3 There are other Financial Accounting standards that refer to valuing assets at Fair Value, therefore the introduction of IFRS 13 provides consistency in the interpretation of the definition of Fair Value.

3.4 However, the adoption of IFRS 13 has limited applicability to the public sector and North Yorkshire County Council as exceptions have been permitted for all operational Property, Plant and Equipment and Intangible Assets. Therefore, this new accounting standard will only focus on the County Council's portfolio of Surplus Property and Investment Property (County Farms).

3.5 The changes resulting from the adoption of IFRS 13 are only prospective and apply from 1 April 2015. As a result, no restatement of prior year balances are required.

3.6 Following discussions with the County Council's property valuation specialists, Bruton Knowles, initial analysis of the introduction of IFRS 13 suggests that the revised valuation of Surplus and Investment Property will be minimal. Finance will review the accounting policy for Property, Plant and Equipment to reflect the changes introduced by the adoption of IFRS13.

4.0 Code of Practice Changes Resulting in Changes to the SOFA which could apply to the County Council in 2015/16 or future years:

4.1 *Narrative Reporting*

4.2 Accounts and Audit Regulations 2015 now require a ‘narrative statement’ to be produced and to be included in the Statement of Financial Accounts to replace the Explanatory Foreword.

4.2 The Narrative Statement will provide commentary on the County Council’s financial performance and value for money in its use of resources.

4.3 The Code has made reference to the Financial Reporting Council’s document *Guidance on the Strategic Report*. The narrative reporting will need to refer closely to the performance reporting and performance outcomes of the County Council at the end of the financial year. The County Council will be required to refer to various financial and non-financial performance indicators.

4.4 The Narrative Statement should be fair, balanced and user friendly.

4.5 The County Council will review the existing Explanatory Foreword for 2014/15 for the purposes of producing a new Narrative Statement with reference to the principles and guidance issued by CIPFA.

4.6 CIPFA consider this to be an intermediate step before the findings on its work on integrated reporting is published in late 2016 and incorporated into the 2017/18 Code.

POTENTIAL CHANGES TO THE CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING POLICIES IN THE PIPELINE FOLLOWING RECENT CIPFA CONSULTATION:

1.0 Introduction

1.1 CIPFA have consulted and confirmed on some of the proposed changes to the 2016/17 Code of Practice (to be issued in early 2016), and have also provided indications of further potential changes that are likely to be reflected in updates to the 2016/17 Code and beyond. Some of these key changes outlined below however have been reported to the Audit Committee in December 2014 as being in the pipeline.

2.0 Code of Practice on Transport Infrastructure Assets:

2.1 The 2016/17 Code will adopt the measurement requirements of the CIPFA Code of Transport Infrastructure Assets i.e. measurement on a Depreciated Replacement Cost basis and moved away from valuing Transport Infrastructure Assets on the basis of historical cost. This will represent a significant change in accounting policy from 1 April 2016. However CIPFA have indicated that no prior period restatement will be required. Audit Committee have been advised in previous years that this change would require a full retrospective adjustment for the balance sheets as at 1April 2015.

2.2 This change will require the establishment of a separate class of assets for transport infrastructure assets in accordance with the types of assets classified in the Code of Practice on Transport Infrastructure assets. The Code also requires separate sub-divisions of transport infrastructure asset category for disclosure in the statement of financial accounts. Assets will be categorised into the following broad categories:

- Carriageways
- Footways and cycle tracks
- Structures
- Street lighting
- Street furniture
- Traffic Management Systems
- Land

2.3 The Accounting Code currently measures infrastructure assets at depreciated historical cost, which is compliant with the requirements of IFRS, but it is not, in CIPFA’s view, the most appropriate measurement base for the valuation of transport infrastructure Assets of local authorities. CIPFA has long held the view that current (depreciated replacement cost) value accounting is the more appropriate measurement base of local authority assets. This would have the impact of significantly increasing the value of non-current assets held on the balance sheet with an associated significant increase in value of depreciation charges on the Comprehensive Income and Expenditure Statement.

2.4 The County Council have continually complied with the additional reporting requirements of valuing highways infrastructure assets at depreciated related cost for the purposes of providing additional information for Whole of Government Accounts and maintained a state of readiness to address future developments in this area.

3.0 **Early Accounts Closure from 2017/18**

3.1 The County Council has been notified that from 2017/18, the 2017/18 accounts must be approved by the S151 Officer by 31 May 2018 (one month early than the current statutory deadline of 30 June), and the 2017/18 audited accounts must be published by 31 July 2018 (two months earlier than the current statutory deadline of 30 September).

3.2 The County Council is already reviewing its processes to meet these significant challenges. There will also be additional pressure on External Auditors to meet much more challenging timescales.

3.3 The County Council has identified a number of actions which must be undertaken to meet these timescales and these will be reported in more detail to Audit Committee in September. These changes will involve a significant level of buy-in and support from staff and Budget Managers.

4.0 **Leases**

4.1 The County Council are aware that CIPFA are considering the implications of adopting IFRS 16 – Lease. It is anticipated that IFRS 16 could potentially be introduced from January 2019.

4.2 The County Council understand that the definition of a finance lease is to be extended, which may create an accounting implication that the associated lease needs to be capitalised as an asset (with a corresponding liability extending over the life of the lease) on the lessee’s balance sheet.

4.3 Exceptions may be granted for leases of small value assets and for very short term leases, but an increased number of existing operating leases may need to be reclassified as finance leases, which could have prudential borrowing implications for the County Council.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 March 2016

INFORMATION GOVERNANCE – PROGRESS REPORT

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

1.1 To update Members on the progress made to further develop the County Council's Information Governance arrangements.

2.0 BACKGROUND

2.1 Since 2010, the County Council has had a comprehensive policy framework covering all aspects of Information Governance (IG). Significant work has been undertaken since then in order to raise awareness of the policy requirements and ensure compliance. Information is a key asset for the Council (like money, property, or the skills of its staff) and must be protected accordingly. Much has been achieved in this area but there is a continuing need to maximise compliance and embed a culture of sound information governance, particularly in relation to information security.

2.2 According to the Terms of Reference of the Audit Committee, its role in respect of information governance is:

(i) to review all corporate policies and procedures in relation to Information Governance

(ii) to oversee the implementation of Information Governance policies and procedures throughout the County Council

2.3 Information governance remains a high risk area as identified on the Corporate Risk Register. This is, in part, due to the ever increasing risks in a hi-tech environment and the behavioural challenges encountered. The current view is that this will be an area of on-going high risk <u>despite</u> the Council's actions to mitigate those risks.

3.0 INFORMATION GOVERNANCE POLICY FRAMEWORK

3.1 The objective of the policy framework is to set out how the County Council will improve its information management by establishing:

- core measures to protect personal data and other information across the County Council.
- a culture that properly values, protects and uses information.
- stronger accountability mechanisms within the County Council.
- stronger scrutiny of performance in relation to the above.

3.2 The original policy suite has been reviewed and revised to take account of recent developments and current best practice. The opportunity has also been taken to consolidate and simplify the previous policies. This updated suite of policies now consists of:

- **Information Governance Policy**
  This Policy sets out the value of information as a key asset for the council (like money, property, or the skills of its staff) and how it must be protected accordingly. It provides details including the framework for data and its security, as well as employees' roles and responsibilities.

- **Personal Privacy Policy**
  This Policy aims to guide the Council in managing the personal data it holds, to protect the rights of data subjects; and to allow the Council to effectively use the personal data it holds as a resource for the delivery of its services, both to individuals and to the public as a whole. It applies to all Council employees, Council contractors, volunteers and other unpaid or temporary workers (for example, work experience placements) and elected Members.

- **Information Access Policy**
  This Policy sets out how the Council will fulfil its duty to disclose information to enquirers under the Data Protection Act 1998, the Freedom of Information Act 2000 and the Environmental Information Regulations 2004. The Council has obligations and responsibilities in responding to requests under this legislation and this Policy sets out those responsibilities and provides a framework for managing and responding to requests.

- **Document and Records Management Policy**
  This policy provides a framework for managing the Council's records and documents. Effective management of records and documents (such as identifying what records need to be kept and for how long) helps the Council to deliver quality services for example, by having timely access to meaningful and appropriate information, responding appropriately to information requests from the public, and by protecting records from threats, including unauthorised or accidental disclosure. This policy applies to employees, contractors, volunteers and other unpaid or temporary workers.

- **Mobile Device Policy**
  This Policy states how employees or workers of the Council, Members and contractual third parties who have access to a mobile device for Council business, should use a mobile device whilst working for the Council. It outlines personal responsibilities and advises what must and must not be done.

3.3 For information, the published intranet versions include hyperlinks to related documents such as the Publication Scheme and the ICO website.

3.4 It is recognised that operational demands and changes in working practices , such as those to support more mobile working, will potentially raise significant IG risks. These issues will need to be carefully considered and sufficient safeguards put in place to mitigate those risks where possible.

4.0 INFORMATION SECURITY COMPLIANCE

Information Security Compliance Checks

4.1 Internal Audit has been carrying out unannounced compliance audits relating to information security for some time. Out of the 13 audits that have been carried out in the past year, 8 have been classified as 'Limited Assurance'. Examples of non-compliance include:

- Sensitive data relating to children and adults being left unsecured, such as child protection reports; health details and details of physical abuse; fostering files; application forms for residential disabled parking; deprivation of liberty forms; care plans; clients' files and lists containing personal details
- Sensitive data relating to staff being left unsecured, such as details of staff sickness; disciplinary files and employees' personal files and information
- Unsecured laptops and passwords and PIN numbers

4.2 Where non-compliance has been identified this has been brought to the attention of the relevant managers promptly with appropriate remedial action taken as necessary. Details of non-compliance have also been reported to the Corporate Information Governance Group (CIGG) and directorate information governance champions so as to help develop further guidance, training and other awareness raising measures. Information security is now regularly considered by directorate management teams and a number of services have instigated their own ongoing compliance checks.

4.3 There are also examples of good practice such as at Swaledale House, Colburn and Belle Vue Square, Skipton where the audits were classified as 'High Assurance'.

Data Security Incidents

4.4 There have been 68 data security incidents reported in the first 9 months of 2015/16. All reported incidents are investigated with the most serious ones being referred to Internal Audit. The majority of these incidents have been caused by human error. Typical examples include:

- Documents sent to incorrect recipients by email or post (because address or email details were not properly verified);
- Documents containing personal information left in unsecure locations;
- Documents containing personal information attached to emails in error;
- Documents containing personal information incorrectly enclosed with information relating to someone else;
- Documents delivered to the incorrect address (by Royal Mail);
- Personal information not deleted when forms or letters re-used;
- E-mail recipients disclosed because the blind copy function not used;

- Documents left on printers.

4.5 The reporting of incidents has increased significantly in the last few years. On the surface this may not be seen as a positive sign but it does indicate that there is heightened awareness of the issues. Staff are encouraged to quickly flag breaches and data security incidents so that recovery arrangements can be made and lessons subsequently learned. It is accepted that human error will never be eradicated but care and attention is essential when handling sensitive data. For this reason, work is ongoing to raise awareness, provide guidance and the necessary tools (for example secure e-mail facilities) and test compliance.

5.0 MANDATORY TRAINING

5.1 There has been mandatory training in place for some time. The 3 in depth mandatory online learning courses have recently been revised and re-launched. These must be completed by all identified employees by the end of March 2016. If this is not achieved then the employee's annual increment could be in jeopardy. The introductory course is presently being refreshed and is mandatory for everyone else.

5.2 The online courses have helped employees to understand their responsibilities in relation to personal and sensitive information. However, as can be seen in Section 4, there remains a concern that the connection between the training and the application of the knowledge learnt is not always being made by employees.

6.0 DATA SHARING WITH PARTNER AGENCIES

6.1 There is a need for the Council to share information with a variety of external partners. Whether this is between social care and health, District Councils or the Police, the information governance requirements and standards that have to be adhered to are the same.

6.2 It is accepted that there is already a great wealth of information sharing practice happening within the council and externally with key partners. However it has been identified through various information governance sources that we need to align our processes to ensure we are sharing information appropriately, at the right time, with the right people and by the correct means.

6.3 In response to this significant progress has been made, and one of the major pieces of work completed with partners over recent months is the production of a collaborative Multi Agency Overarching Information Sharing Protocol (the "Protocol").

6.4 The aim of the Protocol is to create a positive culture of sharing information and facilitate more effective data sharing practices between partner agencies, with the ultimate aim of improving service delivery. Refusing to share data can be a risk just as much as sharing too much data.

6.5 The Protocol applies to all information being shared by signatory partner agencies, with the aim of establishing the types of data which these agencies will share, how data is handled and the legislation which allows the information to be shared, as well as outlining processes for developing individual Information Sharing Agreements.

6.6 The Protocol has been developed to ensure that information is being shared lawfully, appropriately and in compliance with best practice. The Protocol aims to establish consistent principles and practices to govern sharing of personal and non-personal information taking place within and between partner agencies. The ethos of the Protocol is for partner agencies to share information in all situations to improve service delivery and resident outcomes and to support safeguarding, except where it would be unlawful to do so.

6.7 The Protocol has already been signed by City of York Council, NY Fire and Rescue Authority, NY Police, York Teaching Hospital NHS Foundation Trust, Scarborough Borough Council, Richmondshire District Council, Ryedale District Council, Craven District Council, Selby District Council, Harrogate Borough Council, Broadacres, Yorkshire Coast Homes, Together Housing Group and Veritau. Hambleton District Council has indicated an intention to sign the Protocol. A number of other NHS organisations are also considering becoming signatories.

6.8 The Steering Group is working to extend the list of signatories. NHS organisations including CCGs, housing associations and other public bodies are being approached as part of the roll-out.

7.0 RECOMMENDATIONS

7.1 Members are asked to note the progress made on information governance issues.

GARY FIELDING
Corporate Director – Strategic Resources

County Hall
Northallerton

March 2016

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Background papers: None

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 MARCH 2016

COUNTER FRAUD AND ASSOCIATED MATTERS

Report of the Head of Internal Audit

Discussion of Appendices 2 and 3 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 2015/16 to date.

1.2 To consider proposed changes to the County Council's whistleblowing policy framework prior to approval.

1.3 To consider the Annual Fraud 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. Reported cases of fraud increased by 5% in the year to September 2015 with notable increases in fraud against banks, insurance companies and other financial sector organisations. The fastest growing risks are seen to be cyber crime and fraud caused by insiders (including malicious employees stealing, manipulating or destroying data). 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, although this figure was probably an underestimate. Detected fraud in English councils during 2014/15 totalled £207m, representing an increase of 11.1% compared to the previous year. The main types of local government fraud continue to be housing tenancy, council tax, procurement, social care and 'internal' fraud.

2.2 Reduced resources mean that local authorities have less capacity to investigate suspected fraud or undertake proactive counter fraud activities. In addition, responsibility for benefit fraud investigation is transferring from local authorities to the Department for Work and Pensions as part of the Single Fraud Investigation Service (SFIS) project. Many councils are therefore losing qualified and experienced fraud investigators and hence the ability to address fraud risks. Whilst Veritau maintains a corporate fraud team, outside London only a third of councils have such arrangements.

2.3 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 is working 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 was the Code of Practice on managing the risks of fraud and corruption. The Code highlighted 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.

2.4 An updated national fraud strategy '*Fighting Fraud Locally'* is due to be published within the next few months.

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 successfully bid for additional government funding to combat fraud. The funding was made available by the Department for Communities and Local Government (DCLG) and was intended to improve capacity in this area. The total allocation was £170k over two years and this is being used to investigate social care, council tax/NNDR and procurement related fraud across the partner councils.

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 was updated in March 2015 to reflect the best practice guidance contained in the new Code of Practice. In addition, a new Fraud Prosecution and Loss Recovery policy, setting out the measures that can be taken to recover fraud losses, was approved. The Anti Money Laundering Policy has also been recently updated. No further amendments are considered necessary to either the Strategy or these policies.

3.3 The Whistle blowing policy framework was updated in March 2014 to reflect recent legislative changes. The framework consists of a policy covering County Council employees, Members and contractors, plus a related policy for schools. It is now considered appropriate to simplify arrangements and to adopt a single policy. This change also reflects the increasing diversity of support available to schools. A copy of the revised policy is attached as **Appendix 1** with the proposed amendments shown as tracked changes. The related guidance for managers is also being updated to reflect the revised policy.

4.0 **INVESTIGATIONS UNDERTAKEN IN 2015/16**

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 2** provides a summary of the number and type of investigations undertaken by Veritau during 2015/16 to date. Details of the cases investigated in the previous three years are provided for comparison purposes.

5.0 FRAUD RISK ASSESSMENT

5.1 Internal Audit completes an annual Fraud 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 3** provides the outcomes of the 2015/16 Annual Fraud Risk Assessment exercise.

6.0 RECOMMENDATIONS

Members are asked to:

6.1 note the investigations carried out by Veritau in 2015/16 to date, and the outcome of the annual Fraud Risk Assessment.

6.2 approve the proposed changes to the County Council's whistle blowing 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 2016

North Yorkshire County Council

Policy Document
Whistleblowing

2016

Index

1.0 INTRODUCTION

1.1 The County Council is committed to the provision of the highest quality services to its residents and is proud of its track record of probity and high ethical standards. However, it also recognises that ~~to full accountability for those services. Whilst the County Council has in place rules, regulations, quality standards and procedures to ensure that the highest standards of conduct and commitment to service delivery are followed,~~ irregularities, wrong-doing or serious failures in standards can ~~do~~ sometimes occur. ~~The County Council wants to identify and remove such malpractice in the performance and delivery of its services.~~

1.2 The greatest deterrent to malpractice or wrongdoing is the probability that it will be reported and investigated ~~vigorously~~, that those who are responsible for it will be punished and that the matter will be promptly remedied. This Policy is therefore intended as a clear statement that any malpractice by members, employees or third parties (including contractors) reported to the County Council will be swiftly and thoroughly investigated. The County Council will also look at ways to ensure that such malpractice or wrongdoing can be prevented for the future.

2.0 AIMS AND SCOPE OF THE POLICY

2.1 This Policy provides all employees, agency workers, schools' employees, contractors (including their staff) and M~~m~~embers of the County Council with:

- avenues to raise concerns and receive feedback on any actions taken;
- reassurances that they will be protected from ~~reprisals or~~ victimisation for whistleblowing.

2.2 Set out below is a list which is intended to illustrate the types of issues which may be ~~considered as malpractice or wrongdoing and can be~~ legitimately raised under this Whistleblowing Policy:

a) any offence, unlawful act, ~~whether criminal or a breach of civil law,~~ failure to comply with legal obligations or where a miscarriage of justice has occurred, is occurring or is likely to occur;

b) maladministration, as defined by the Local Government Ombudsman;

c) breach of any statutory Code of Practice;

d) breach of, or failure to implement or comply with any County Council policy or procedure rules; ~~determined by the County Council, Executive or Committee of the County Council~~

e) failure to comply with appropriate professional standards;

f) corruption, theft or fraud; ~~including obtaining money (eg grants) without entitlement~~

g) misuse or damage of County Council assets;~~, including stores, equipment, vehicles, buildings, computer hardware and software~~

h) ~~endangering~~ risks to the health and safety of any individual or the abuse of any vulnerable person;~~with actions which are likely to cause physical danger, or to give rise to a risk of significant damage to property~~

i) failure to take reasonable steps to report and rectify any situation which is likely to give rise to a significant avoidable cost, or loss of income to the County Council;~~, to the County Council or would otherwise seriously prejudice the County Council;~~

j) unethical conduct~~corrupt practices~~, the abuse of power, or the use of the County Council's powers and authority for any unauthorised or malicious ~~ulterior~~ purpose;

k) unfair discrimination in the County Council's employment or the provision of services;

l) causing damage to the environment;

m) the deliberate falsification or destruction of information or data;

n) the deliberate concealment of information in relation to any of the items on this list.

2.3 This Whistleblowing Policy is primarily intended for people to raise concerns that are in the public interest and where the interests of others or of the organisation itself are at risk. It is intended to supplement, rather than to replace, the existing grievance procedures whereby employees of the County Council may already raise complaints or matters of genuine concern relating to their own employment. ~~It is therefore designed to provide a channel for those instances where the person reporting the matter feels that, for any reason, they cannot make use of those existing complaints procedures.~~

3.0 EMPLOYEE CO-OPERATION AND SAFEGUARDS

3.1 In many cases it is ~~an~~ employees ~~of the County Council~~ who are~~is~~ most likely to be in the best position to learn of any malpractice or wrongdoing within the County Council or school setting and to identify something which falls below the standards which the County Council and the public ~~its customers~~ are entitled to expect. The County Council expects the fullest co-~~-~~operation of all ~~its~~ employees in securing the highest standards of service to ~~the~~ local residents~~ of North Yorkshire~~. This means that, where an employee or Member ~~of the County Council~~ becomes aware of, or suspects, malpractice, the County Council and school governors will expect them to report these suspicions. ~~Where an employee fails to report their suspicions, they become themselves implicated in the wrongdoing, and~~ T~~t~~he County Council and school governors will treat any failure ~~by an employee~~ to report such matters as a serious matter which may, in the case of an employee, result in disciplinary action being taken~~, amount to a disciplinary matter and~~ or may, in the case of a Member be regarded as ~~, to a matter, depending on the circumstances, that may amount to~~ a breach of the Members' Code of Conduct.

3.2 This Policy ~~statement~~ has been discussed with the relevant trade unions and professional associations and has their support.

3.3 The County Council will respect (so far as it can legally) the confidentiality of any whistleblowing complaint received, where the complainant requests that confidentiality but cannot guarantee that the investigation process will not result in colleagues speculating on the identity of the whistleblower. I~~t must be appreciated that i~~t will be easier to follow up and to verify ~~complaints~~ the facts of a case if the complainant is prepared to give his/her name. ~~, and u~~Unsupported anonymous complaints and allegations are much less powerful and therefore will have to be treated with caution. There will be circumstances where information must be disclosed for legal reasons, or to enable legal steps to be taken, e.g. there may be an obligation to disclose under the Freedom of Information Act provisions, or if the circumstances amount to a serious crime there may be circumstances where information will have to be passed to senior officers or to external agencies such as the police or external auditors.

3.4 Any reporting system will be of little effect if those who should use it are afraid that, as the result of making their report, they may experience recriminations, victimisation or harassment. The County Council will therefore not tolerate any attempt ~~on the part of any employee or member~~ to take reprisals against any person who has reported a serious and genuine concern. The County Council will treat any such recriminations, victimisation or harassment ~~by any employee or member of the County Council~~ as a serious matter which may, in the case of an employee, result in disciplinary action being taken ~~amount to a disciplinary matter and~~ or which may, in the case of a Member, be regarded ~~to a matter, depending on the circumstances, that may amount to~~ as a breach of the Members' Code of Conduct. ~~A whistleblower has the right to sue anyone who is involved in such conduct and the County Council could be held liable if it has not taken all reasonable steps to prevent such victimisation from occurring.~~ Individuals may also have statutory protection under the Public Interest Disclosure Act 1998, which aims to protect individuals who make certain disclosures of information in the public interest and who are then victimised in their employment. If a whistleblower who has made a valid complaint feels that they have been victimised as a result of raising concerns they can raise the matter directly with the Head of Internal Audit, Veritau who will raise the matter immediately with the appropriate Corporate Director, or the Chief Executive Officer if the complaint relates to a Corporate Director, who will take appropriate action.

3.5 The County Council ~~is proud of its reputation for having the highest standards of probity. It~~ will ~~therefore~~ ensure that the necessary resources are ~~put~~ ~~intoput~~ ~~into~~applied to investigating any complaints ~~which it~~ received~~s~~. As a consequence of this it will view ~~very~~ seriously any knowingly false or malicious allegations which it receives, and will regard the making of any deliberately malicious or vexatious allegations by any employee ~~or member of the County Council~~ as a serious disciplinary offence.

3.6 The Whistleblowing Policy will be publicised to all staff, schools' employees, ~~m~~Members and contractors via appropriate communication channels.

4.0 **HOW TO RAISE A CONCERN**

4.1 Employees are expected to initially report any concerns to their line manager. ~~It is envisaged that a Line Manager will be the first point of contact in the majority of cases.~~ For school based staff this will normally be the relevant head of department, head teacher or principal. It will be their responsibility to initially investigate all matters reported to them promptly in accordance with the procedure notes issued. If employees feel unable to report concerns in this manner then they should contact their Assistant Director, or in the case of school based staff, the Chair of Governors.

4.2 It is, however, appreciated that there may be times when an employee ~~of the County Council~~ feels unable to use the above procedure, for example when the Whistleblower feels that their l~~L~~ine m~~M~~anager may be involved in the malpractice or has failed to take appropriate action when the matter has been raised previously. In such circumstances the Whistleblower may wish to make a whistleblowing complaint under this Policy. The County Council has therefore appointed the Head of Internal Audit, Veritau to act as its Whistleblowing Officer, with the following remit:

a) to receive and record any complaints made under this Policy;

b) to ensure, as far as possible, the confidentiality of any whistleblowing complainant who requests that their complaint be treated in confidence subject to paragraph 3.3 above~~.~~;

c) to investigate promptly any whistleblowing complaint and to respond directly to the complainant, with a right of access to the Chief Executive Officer and all M~~m~~embers and employees of the County Council or school and to all documents and records of the County Council or school;

d) to report to the appropriate ~~Service Unit Head~~ Corporate Director or head teacher where the investigation identifies a serious cause for concern within the responsibilities of that officer and to recommend the use of any relevant statutory powers or duties. Where the complaint relates to the conduct of a ~~m~~Member or a Corporate Director~~one of the Service Unit Heads~~, he/she should report to the Chief Executive Officer (and also to the Monitoring Officer in case of complaints in relation to Member conduct). Where the complaint relates to the Chief Executive Officer, he/she should report to the Corporate Director – Strategic Resources. Where the complaint relates to a head teacher or principal, he/she should report to the Chair of Governors;

e) to report as appropriate, either jointly with the Corporate Director(s) concerned or in his/her own right, to the County Council, the Executive and/or any Committee or Sub-Committee of the County Council;

f) to recommend, in conjunction with the Chief Executive Officer or Assistant Chief Executive (Legal and Democratic Services), to settle appropriate action to resolve a complaint or recompense a complainant;~~,~~ and

g) to report annually to the Corporate Director – Strategic Resources and, where required, to the Standards and Audit Committees on the number of concerns raised under this Whistleblowing Policy.

4.3 The Head of Internal Audit, Veritau can be contacted by writing a letter in a sealed envelope marked Strictly Private and Confidential, addressed to:

Max Thomas (Head of Internal Audit)
Veritau Ltd
County Hall
Racecourse Lane
Northallerton
North Yorkshire
DL7 8AL

or by telephoning (01609) 532143. In addition there is a direct and confidential whistleblowing hotline number (01609) 760067, which is available 24 hours a day. ~~There is also an on-line form, available on the Internet, which can be completed anonymously.~~

~~4.4 For contractors, a clause will be inserted in all standard County Council contracts highlighting that the Whistleblowing Policy applies to all their staff working on County Council business. It will place a requirement on these contractors to publicise the Whistleblowing Policy to all their staff involved with their contract for the County Council.~~

5.0 HOW THE COUNTY COUNCIL WILL RESPOND

5.1 In order to protect both individuals and the County Council, initial enquiries will be made to decide whether an investigation is appropriate and, if so, what form it should take. Concerns or allegations which fall within the scope of specific policies or procedures (for example child protection or discrimination issues) will normally be referred to the appropriate department for separate consideration under those procedures.

5.2 Some concerns may be resolved by agreed action without the need for detailed investigation.

5.3 Within 10 working days of a concern being received, the line manager or the officer who is designated to carry out the whistleblowing investigation (on behalf of the Head of Internal Audit) will write to the whistleblower:

- acknowledging that the concern has been received;
- indicating how ~~it~~ s/he proposes to deal with the matter;
- giving an estimate of how long it will take to provide a final response;
- stating whether any initial enquiries have been made~~,~~; and
- stating whether further investigations will take place, and if not, why not.

5.4 The amount of contact between the officers considering the issues and the whistleblower, will depend on the nature of the matters raised, the potential difficulties involved and the clarity of the information provided. If necessary, further information ~~will~~ may be sought from the whistleblower.

5.5 When any meeting is arranged, the whistleblower has the right, if they so wish, to be accompanied by a Union or professional association representative or a friend who is not involved in the area of work to which the concern relates.

5.6 The County Council will, as far as it is able, take steps to minimise any difficulties which the whistleblower may experience as a result of raising a concern. For instance, if they are required to give evidence in criminal or disciplinary proceedings, the County Council will, where appropriate and as far as it is able to do so, provide advice about the procedure.

5.7 The County Council accepts the whistleblower needs to be assured that the matter has been properly addressed. Thus, subject to any legal constraints, information about the outcomes of any investigations will be provided.

6.0 HOW MATTERS CAN BE TAKEN FURTHER

6.1 This P~~p~~olicy is intended to provide staff with an appropriate avenue to raise concerns within the County Council. If ~~staff~~ employees have reported a concern in accordance with the Council's Whistleblowing Policy but are not satisfied that the issues have been properly addressed then they may contact:

- ~~Local Council Mmember (if staff member lives in the area of the Council);~~
- Chair or any M~~m~~ember of the County Council's Standards Committee;
- Chair or any M~~m~~ember of the County Council's Audit Committee;
- The External Auditor;
- The NSPCC (for concerns about children at risk of abuse)[1];
- Relevant professional bodies or regulatory organisations[2], for example, the Information Commissioner's Office.

7.0 INDEPENDENT ADVICE

7.1 Free, confidential advice on how to raise a concern about malpractice at work can be sought from the independent charity Public Concern at Work on 020 7404 6609.

8.0 REVIEW OF THE POLICY

8.1 The Policy will be subject to review as and when required.

[1] The NSPCC offers a dedicated national whistleblowing hotline (see www.nspcc.org.uk for further details)

[2] The Department for Business, Innovations and Skills maintains a list of prescribed persons who may be contacted

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

3 March 2016

ANNUAL TREASURY MANAGEMENT STRATEGY 2016/17

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 2016/17.

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 16 February and full Council on 24 February 2016.

2.3 The Annual Treasury Management documentation for 2016/17 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 18 May 2016.

3.0 ANNUAL TREASURY MANAGEMENT POLICY / STRATEGY FOR 2016/17

3.1 The Full Treasury Management Documentation submitted to Executive on 16 February and full Council on 24 February 2016 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 2016/17 **(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 2016/17 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

3 March 2016

APPENDIX

NORTH YORKSHIRE COUNTY COUNCIL

EXECUTIVE

16 February 2016

TREASURY MANAGEMENT

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF REPORT

1.1 To recommend to the Council an updated Annual Treasury Management Strategy for the financial year 2016/17 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 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 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 Council on 15 February 2012.

2.3 In addition, the 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 Council to have regard to the Prudential Code and set Prudential Indicators for the next three financial years to ensure that the 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 Council must have regard.

2.6 A separate report on the Prudential Indicators for the three years 2016/17 to 2018/19 is also submitted to this Executive on 2 February 2016. 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 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 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 2016/17 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 Council to approve:

(a) a **Treasury Management Policy Statement** (TMPS) stating the 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 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 2016/17.

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 2016/17

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 2016/17**, 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 **£373.5m** in 2016/17;

(b) an operational boundary for external debt of **£353.5m** in 2016/17;

(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 2016/17 as set out in **Section 11** of **Appendix B**;

(i) the Corporate Director – Strategic Resources to report to the 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 Council.

Long Term Debt Position

4.4 In **Section 10 of Appendix B**, reference is made to the long term debt position of the 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 Council is essentially related to the level of capital expenditure undertaken. The growth of the 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 actual	319.8	- 24.8 (C)
2016 forecast	326.0	+ 6.2
2017 forecast	320.6	- 5.4
2018 forecast	311.1	- 9.5
2019 forecast	302.0	- 9.1

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 2016 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 2015/16 to 2018/19 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 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 its appendices. This also applies to the various Prudential Indicators covered in **Section 3 of Appendix B** and the separate Prudential Indicators report. If implemented 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 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 Council to boost capital spending 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 £26.6m in 2016/17; this consists of interest payments of £13.7m and a revenue provision for debt repayment of £13.9m.

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 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.

Age profile of the external debt

4.13 The age profile of the Council's external debt as at 31 March 2015 is as follows:-

Length of Period	**£m**
up to 1 year	8.2
1 year to 2 years	7.6
2 years to 5 years	60.9
5 years to 10 years	54.6
10 to 25 years	34.7
25 to 40 years	131.3
above 40 years	22.5
Total external debt at 31 March 2015	**319.8**

4.14 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 2016/17 Borrowing Strategy set out in **Section 8 of Appendix B** will mean that the 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 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 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 Council's Treasury Management Advisor, Capita Asset Services – Treasury Solutions. **(See paragraph 13 of Appendix B).**

Changes to Credit Methodology

5.2 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).

5.3 Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these implied "uplifts" in credit quality. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed.
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; they are merely reflective of a reassessment of rating agency methodologies in light of changes to the regulatory environment.

5.4 As a result of these rating agency changes, the credit element of the creditworthiness methodology will focus solely on the Short and Long Term ratings of an institution. Rating Watch and Outlook information will continue to be assessed and the overlay of CDS (Credit Default Swap) prices will continue to be used.

Lending criteria for 2016/17

5.5 In order to minimise the risk to investments, the 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 2015/16 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 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.

5.6 By collating and reviewing on an ongoing basis the above data, the 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.

5.7 It is, therefore, proposed that the lending criteria, as summarised in **paragraph 5.2** above, be utilised for 2016/17. These criteria are set out in full in **paragraph 12.8** of the Annual Treasury Management and Investment Strategy 2016/17 (**Appendix B**) attached and will enable the 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

5.8 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. Its standard interest rate however of 0.25% is below what could realistically be achieved elsewhere for similar short term investments.

5.9 This investment option is included in the Council's current approved lending list with a maximum investment limit of £100m. The facility was not utilised in 2014/15 and no investments are anticipated in 2015/16. However, The DMO account will remain on the Council's approved Lending List as a precaution.

Approved Lending List

5.10 The current Approved Lending List is attached to this report as **Schedule C** to the Annual Treasury Management and Investment Strategy 2016/17 (**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 5.8** below.

5.11 As mentioned in **paragraph 5.2 (a)** the 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 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 2016/17 (**paragraphs 12.8 (c) of Appendix B**).

5.12 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

5.13 The criteria for **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

5.14 Local Authorities will continue to be included on the Approved Lending List for 2016/17, 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.

5.15 The information below details all the changes reflected in the latest Approved Lending List (**Schedule C to Appendix B**) compared with that submitted for 2015/16 in February 2015. Please note that the analysis below is between the version provided last year and the proposed list for 2016/17 – 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 Approved Lending List which will NOT be included for 2016/17

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

(b) organisations who continue to be included on the 2016/17 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) 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

5.16 Because of the stringent credit rating criteria being adopted (**paragraph 5.2**), there are relatively few organisations remaining on the 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 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 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 Council on 17 February 2016.

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 2016/17 (**Appendix B**) is submitted for review by the Audit Committee on 3 March 2016. 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 Council at its meeting on 18 May 2016.

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 Council as part of the Budget process that sets out the Council's **Treasury Management Strategy and Policy** for the forthcoming financial year;

(b) an annual report to Executive and 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 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 the Executive recommend to the Council that:

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

(b) the Annual Treasury Management and Investment Strategy for 2016/17 as detailed in **Appendix B** and in particular;

(i) an authorised limit for external debt of £373.3m in 2016/17;

(ii) an operational boundary for external debt of £353.3m in 2016/17;

(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 2016/17 as set out in **Section 11** of **Appendix B**;

(ix) the Corporate Director – Strategic Resources to report to the 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 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
19 January 2016

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: Karen Iveson (01609) 535664

APPENDIX A

NORTH YORKSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1.0 BACKGROUND

1.1 The 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 Council.

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

(a) the 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 Council to its treasury management activities;

(ii) a framework of suitable **Treasury Management Practices** (TMPs) setting out the manner in which the 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 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 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 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 Council on 17 February 2016.

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 Council is set out below.

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

(a) the management of the 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 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 Council as expressed in the Council Plan. The 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 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 Council will seek to achieve the policies and objectives set out in **paragraph 2.2** above; and

(b) prescribe how the 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 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 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 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 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 Council to set out its Treasury Management Strategy for borrowing and to approve an Annual Investment Strategy (which sets out the 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 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 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 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 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 February 2016

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2016/17

1.0 INTRODUCTION

1.1 Treasury Management is defined as

> "The management of the 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 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 Council's capital investment plans are affordable, prudent and sustainable.

1.3 The Act also requires the 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 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 2016/17 therefore covers the following

- treasury limits in force which will limit the treasury risk and activities of the 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 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 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 2016/17 Revenue Budget and Medium Term Financial Strategy report considered separately by the Executive on 2 February 2016 and approved by the Council on 17 February 2016.

1.7 This Strategy document was approved by the Council on 17 February 2016.

2.0 TREASURY LIMITS FOR 2016/17 TO 2018/19

2.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the 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 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 2016/17 TO 2018/19**

3.1 A separate Report incorporating an updated set of Prudential Indicators for the three year period to 31 March 2019, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities, was also approved by the Council on 17 February 2016.

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 2016/17.

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

2014/15 actual	7.5%
2015/16 probable	7.5%
2016/17 estimate	7.1%
2017/18 estimate	6.7%
2018/19 estimate	6.1%

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

2014/15 actual	7.9%
2015/16 probable	7.8%
2016/17 estimate	7.8%
2017/18 estimate	7.7%
2018/19 estimate	7.4%

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

For a Band D Council Tax	
	£ p
2016/17 estimate	0.80
2017/18 estimate	1.67
2018/19 estimate	2.11

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

	£m
2014/15 actual	106.6
2015/16 probable	112.3
2016/17 estimate	93.6
2017/18 estimate	87.7
2018/19 estimate	79.3

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

	Borrowing £m	Other Long Term Liabilities £m	Total £m
31 March 2015 actual	361.1	5.8	366.9
31 March 2016 probable	346.2	5.5	351.7
31 March 2017 estimate	336.7	5.3	342.0
31 March 2018 estimate	326.8	5.1	331.9
31 March 2019 estimate	316.9	4.7	321.9

(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 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 2016/17 and the next two financial years.

The Corporate Director – Strategic Resources confirms that the Council had no difficulty in meeting this requirement up to 2014/15 nor are any difficulties envisaged for the current or future financial years covered by this PI update to 2018/19. For subsequent years, however, there is the potential that the 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
2015/16	369.2	5.5	374.7
2016/17	368.2	5.3	373.5
2017/18	382.5	5.1	387.6
2018/19	344.5	4.7	349.2

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

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing £m
2015/16	349.2	5.5	354.7
2016/17	348.2	5.3	353.5
2017/18	362.5	5.1	367.6
2018/19	324.5	4.7	329.2

(h) **Actual External Debt**

	Borrowing £m	Other Long Term Liabilities £m	Total £m
at 31 March 2015 actual	319.8	5.8	325.6
at 31 March 2016 probable	326.0	5.5	331.5
at 31 March 2017 estimate	320.6	5.3	325.9
at 31 March 2018 estimate	311.1	5.1	316.2
at 31 March 2019 estimate	302.0	4.7	306.7

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

Borrowing from the money market for capital purposes is to be limited to 30% of the 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 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 Council's treasury portfolio position at 31 March 2015 consisted of:

Item	Principal £m	Average Rate at 31 March 2015 %
Debt Outstanding		
Fixed Rate funding		
PWLB	299.8	4.47
Variable Rate funding		
Market LOBO's	20.0	3.95
Total Debt Outstanding	319.8	4.44
Investments		
Managed in house	215.2	0.65
Net Borrowing	**104.6**	

5.0 BORROWING REQUIREMENT AND BORROWING LIMITS

5.1 The 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
2014/15	actual	0	No actual external borrowing was undertaken in 2014/15. The total requirement was £32.5m (including the rolled forward requirement from previous years) which was all financed internally from cash balances.
2015/16	requirement	9.4	Includes £32.5m capital borrowing requirement rolled over from 2014/15
2016/17	estimate	2.2	See **paragraphs 5.8 and 5.9**. The much higher figures for 2015/16 and 2018/19 include 'refinancing' significant PWLB and money market (LOBO) loan repayments in those years.
2017/18	estimate	21.9	
2018/19	estimate	-6.6	

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 2018/19. 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 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 Council will have to borrow up to the Limit agreed.

5.5 The agreed **Operational Boundary** and **Authorised Limits** for external debt up to 2018/19 are derived as follows:

Item	2015/16 probable £m	2016/17 estimate £m	2017/18 estimate £m	2018/19 estimate £m
Debt outstanding at start of year				
PWLB	299.8	326.0	320.6	311.1
Other Institutions	20.0			
Sub-total	319.8	326.0	320.6	311.1
+ **External borrowing requirements**				
Capital borrowing requirement	-0.5	4.4	3.8	3.4
Replacement borrowing	3.2	7.6	31.4	2.5
MRP charged to Revenue etc	14.4	-13.9	-13.7	-13.4
Borrowing rolled over from 2014/15	32.5	-	-	-
Internally funded variations	-11.4	4.1	0.4	0.9
Sub-total	9.4	2.2	21.9	-6.6
- **External debt repayment**	-3.2	-7.6	-31.4	-2.5
= **Forecast debt outstanding at end of year**	**326.0**	**320.6**	**311.1**	**302.0**
+ **Other 'IFRS' long term liabilities which are regarded as debt outstanding for PIs**				
PFI	4.4	4.2	4.0	3.6
Leases	1.1	1.1	1.1	1.1
= **Total debt outstanding including 'other long term liabilities' (PI7)**	**331.5**	**325.9**	**316.2**	**306.7**
+ **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	3.2	7.6	31.4	2.5
= **Operational Boundary for year (PI7)**	**354.7**	**353.5**	**367.6**	**329.2**
+ **Provision to cover unusual cash movements**	20.0	20.0	20.0	20.0
= **Authorised Limit for year (PI6)**	**374.7**	**373.5**	**387.6**	**349.2**

5.6 **Therefore the 2016/17 Limits are as follows:**

	£m
Operational Boundary for external debt	353.5
+ provision to cover unusual cash movements during the year	20.0
= Authorised Limit for 2016/17	**373.5**

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 £9.4m in 2015/16, £2.2m in 2016/17, £21.9m in 2017/18 and £6.6m repayment of internal borrowing in 2018/19) 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 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 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 Indicators covered in **section 3** of this strategy document and the separate Prudential Indicators report. If implemented in 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 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 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 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 Council has provided this information each year and has qualified for the discount for any loans taken out up to 31 October 2016. 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 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 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 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 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 Council's total external debt outstanding at any one point in time (per **Prudential Indicator 9**).

6.7 The 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 Council than PWLB loans.

6.8 At present all 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 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 2019 any time after 1 April 2016 is allowable under the Prudential Code. There are risks, however, in such borrowing in advance of need and the Council has not taken any such borrowing to date and there are no current plans to do so. Furthermore the 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 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 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** UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, the data to quarter 3 2016 has been weak. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.2%.

- The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 / early 2016 but only to be followed by a second, more recent, round of falls in fuel prices which will now delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase.

- There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and zero inflation was not a significant threat.

- The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q3 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008.

(b) Global Economy

- **Eurozone (EZ).** The ECB released a massive €1.1 trillion programme of quantitative easing (QE) to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. However, more recent lacklustre progress, combined with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and / or increasing its size in order to get inflation up from the current level of around zero towards its target of 2%. The ECB will also aim to help boost the rate of growth in the EZ.
- **USA.** Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks, but strong employment data in October and November opened the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.
- **Greece.** During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza Government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.
- **Portual and Spain.** The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing / communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.
- **Japan.** Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. Japan has been hit

hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero.

- **China.** The Government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.
- **Emerging Countries.** There are also considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

(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 evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 20 December 2015. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways.

- The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. 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.
- However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected.

- 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 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.

  → Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or the start of Fed. rate increases, causing a flight to safe havens

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

  → Uncertainty around the risk of a UK exit from the EU.

  → The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to 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 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 2016	0.50	2.00	2.60	3.40	3.20	0.60	1.00
June 2016	0.50	2.10	2.70	2.40	3.20	0.60	1.00
Sept 2016	0.50	2.20	2.80	3.50	3.30	0.60	1.00
Dec 2016	0.75	2.30	2.90	3.60	3.40	0.80	1.30
Mar 2017	0.75	2.40	3.00	3.70	3.50	0.80	1.30
June 2017	1.00	2.50	3.10	3.70	3. 60	1.00	1.50
Sept 2017	1.00	2.60	3.20	3.80	3.70	1.10	1.60
Dec 2017	1.25	2.70	3.30	3.90	3.80	1.30	1.80
Mar 2018	1.25	2.80	3.40	4.00	3.90	1.50	2.00
June 2018	1.50	2.90	3.50	4.00	3.90	1.50	2.00
Sept 2018	1.50	3.00	3.60	4.10	4.00	1.60	2.10
Dec 2018	1.75	3.10	3.60	4.10	4.00	1.80	2.30
Mar 2019	1.75	3.20	3.70	4.10	4.00	1.90	2.40

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

Bank Rate

- UK growth prospects remain strong looking forward into 2016 and 2017
- thus bank rate currently set at 0.5% underpins investment returns and is not expected to start increasing until late 2016
- it is then expected to continue rising by further 0.25% increases reaching 1.75% by December 2018 (0.75% in March 2017 and 1.25% in March 2018)
- 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 2016	March 2019	Increase
	%	%	%
5 years	2.00	3.20	+ 1.20
10 years	2.60	3.70	+ 1.10
25 years	3.40	4.10	+ 0.70
50 years	3.20	4.00	+ 0.80

Short Term Investment Rates

- investment returns are likely to remain relatively low during 2016/17 and beyond
- returns are expected to increase along with bank rate increases
- suggested returns on investments placed for periods up to 100 days are 0.90% in 2016/17, 1.50% in 2017/18 and 2.00% in 2018/19

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

- Investment returns are likely to remain relatively low during 2016/17 and beyond;
- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 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;
- 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 2016/17**

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 2016/17. Consideration will therefore be given to the following:

(a) the 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	2.4
–	10 year period	3.0
–	25 year period	3.7
–	50 year period	3.6

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 Council intends to make use of this new source of borrowing as and when appropriate.

External -v- internal borrowing

8.5 The 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 £41.4m at 31 March 2015, 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, 2013/14 and 2014/15 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 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 Council's cash balance with the daily average being £260.9m in2014/15. 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 2016/17 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 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 2016/17 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 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 2016/17

8.15 Given the market conditions, economic background and interest rate forecasts set out in **paragraph 7** above, caution will be paramount within the Council's 2016/17 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 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 2016/17 and continue to fund the year's borrowing requirement together with that for 2011/12, 2012/13, 2013/14 and 2014/15 from internal sources (ie running down the investment of cash balances). This has the potential for achieving short term revenue savings in 2016/17 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 2016/17 (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)
2015/16	364.2	28.6	7.8	3.6	43.0
2016/17	356.9	27.8	7.8	3.6	
2017/18	351.8	27.1	7.7	3.5	
2018/19	353.9	26.3	7.4	3.5	
			(b÷a)	(a/100)	

9.4 The above table reflects the following

- the impact of the Local Government Finance Settlement for 2016/17 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 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 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 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 2016/17, 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 £319.8m at 31 March 2015 (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 Council in 2015/16 to date with none being expected during the remainder of the financial year.

11.0 MINIMUM REVENUE PROVISION (MRP) POLICY 2016/17

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 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 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 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 Council's MRP policy for 2016/17 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 Council’s MRP policy is based on the Government’s Statutory Guidance and following a review of this policy, no changes are proposed at this time. However, a further review of the existing assumptions for prudent provision incorporated into the Council’s MRP Policy will be undertaken as part of the 2016/17 budget review and any changes will be reported to Members as part of an in-year update of this Annual Treasury Management Strategy. Until that time, the policy for 2016/17 remains 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 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 Council.

However in the case of long term debtors arising from loans or other types of capital expenditures incurred by the Council which will be repaid under separate arrangements (eg loans to NYnet and Yorwaste), there will be no MRP made. The Council is satisfied that a prudent provision will be achieved after exclusion of these capital expenditure items.

This approach also allows the 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 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 2016/17 will be about £14.1m (including PFI and finance leases).

12.0 ANNUAL INVESTMENT STRATEGY

Background

12.1 Under the Local Government Act 2003 the 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 Council before the start of the financial year.

12.2 This Annual Investment Strategy must define the investments the 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 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 2016/17 (**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 Council for consideration and approval under the following circumstances:

(a) significant changes in the risk assessment of a significant proportion of the Council's investments;

(b) any other significant development(s) that might impact on the Council's investments and the existing strategy for managing those investments during 2016/17.

Investment Policy

12.5 The parameters of the Policy are as follows:

(a) the 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 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 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 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 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 Council's Treasury Management Practices Schedules.

Policy regarding loans to companies in which the Council has an interest

12.6 (a) the 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 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 Council, will therefore be made under these powers. They will not however be classed as investments made by the Council and will not impact on this Investment Strategy. Instead they will be classed as capital expenditure by the Council under the Local Authorities (Capital Finance and Accounting) Regulations 2003, and will be approved, financed and accounted for accordingly

(d) at present the 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 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 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 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 Council can invest funds.

It is paramount that the 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 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 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 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 to select counterparties from only the most creditworthy countries. The ratings are the same as those used to measure long term credit.

(b) the 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 Council to determine the duration for investments. The 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 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 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 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 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 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 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 Council's minimum criteria), the Corporate Director – Strategic Resources has the delegated authority to include it on the 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 2016/17

12.9 Recognising the categories of investment available and the rating criteria detailed above

(a) the Council currently manages all its cash balances internally;

(b) ongoing discussions are held with the 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 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 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 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 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 mid 2016;

The 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 2016/17, 1.25% in 2017/18 and 1.80% in 2018/19.

(h) for its cash flow generated balances the Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies), 15, 30 and 100 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 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 Council’s policy on Borrowing in Advance of Spending Needs (**paragraph 6.10**).

Although the 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 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 Council's staff involved in investment management 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 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 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 Following a quotation exercise Capita Asset Services were appointed in September 2015 as a single provider of Treasury Management consultancy services for both the County Council and Selby District Council. The appointment is for three years, with the option for a further two year extension. 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 Council will create and maintain as the cornerstone for effective Treasury Management

(i) a strategic Treasury Management Policy Statement (TMPS) stating the 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 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 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 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 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 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 Council's Treasury Management Policy Statement. Furthermore the Financial Procedure Rules of the 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 2014/15 acquisitions totalling £0.7m were financed from Prudential borrowing. For 2015/16 the forecast outturn position is £0.3m to be financed from Prudential Borrowing.

13.11 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 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 Council as part of the Budget process that sets out the Council's **Treasury Management Strategy and Policy** for the forthcoming financial year;

(b) an annual report to Executive and 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 Council's Treasury Management activities.

15.0 SUMMARY OF KEY ELEMENTS OF THIS STRATEGY

15.1 For the financial year 2016/17 the Council approves the following:-

(a) an Authorised Limit for external debt of £373.5m in 2016/17;

(b) an Operational Boundary for external debt of £353.5m in 2016/17;

(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 2016/17 as set out in **Section 11**;

(i) the Corporate Director – Strategic Resources to report to the 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
19 January 2016

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2016/17 – 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		In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 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	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 2016/17 – 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 2016/17

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				
Bank of Scotland	GBR	85.0	6 months	-	-
Lloyds	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	6 months		
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	20.0	6 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	Temporarily suspended	-	-
Nordea Bank Finland	FIN	20.0	364 days	-	-
Credit Industriel et Commercial	FRA	20.0	364 days	-	-
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 8 January 2016

APPROVED COUNTRIES FOR INVESTMENTS

Based on the lowest available rating

Sovereign Rating	Country
AAA	Australia Canada Denmark Germany Netherlands Singapore Sweden Switzerland
AA+	FinlandUK USA
AA	Abu Dhabi (UAE) France Qatar
AA-	Belgium

AUDIT COMMITTEE - PROGRAMME OF WORK 2015 / 16

	ANNUAL WORKPLAN **Audit Committee Agenda Items**	**MAR 16**	**JUNE 16**	**JULY 16**	**SEPT 16**	**DEC 16**
A	Training for Members (as necessary)	1	2	3	TBA	TBA
	Annual Internal Audit Plan 2016/17	×	×			
	Annual report of Head of Internal Audit 2015/16		×			
	Progress Report on Annual Internal Audit Plan 2015/16	×			×	×
	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 2015/16 (NYCC & NYPF)	×				
	Annual Report / Letter of the External Auditor				×	
	Interim Audit Report		×			
	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	17/02	8/06	29/06	14/09	16/11
	Audit Committee Agenda/Reports deadline	22/02	13/06	04/07	19/09	21/11
	Audit Committee Meeting Dates	03/03	23/06	14/07	29/09	01/12

A = **Internal Audit**
B = **External Audit**
C = **Statement of Final Accounts / Governance**
D = **Other**
E = **Dates**

☼ **before formal meeting**
1 Counter Fraud
2 Procurement / VFM
3 Waste Teckal
Sessions to be sorted