North Yorkshire County Council

Agenda

Meeting: **Audit Committee**

Venue: **The Brierley Room, County Hall, Northallerton DL7 8AD**

Date: **Thursday, 01 March 2018 at 13:30**

Members are invited to a private meeting with the External and Internal Auditors to be held at 13:00 in the Brierley Room

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Business

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

1 **Minutes of the Meeting held on 30 November 2017**

Document Attached:
Minutes of meeting held 30 November 2017.pdf - (Page 8 to 15)

2 **Declarations of Interest**

3 **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.

Document Attached:
Exclusion of the Public.pdf - (Page 16 to 16)

4 **Public Questions or Statements**

Members of the public may ask questions or make statements at this meeting if they have delivered notice (to include the text of the question/statement) to the officer whose contact details are at the foot of the first page of this Agenda **by midday on Monday 26 February 2018**. 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.

5 **Progress on Issues Raised by the Committee**

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

Document Attached:
Progress on Issues Raised by the Committee.pdf - (Page 17 to 19)

6 **External Audit Plan 2017-18 for North Yorkshire County Council and North Yorkshire Pension Fund**

Report of KPMG

Document Attached:
External Audit Plan 2017-18 for North Yorkshire County Council and North Yorkshire Pension Fund.pdf - (Page 20 to 42)

7 **Internal Audit Plan 2017-18 Progress**

Report of the Head of Internal Audit

Document Attached:
Internal Audit Plan 2017-18 Progress.pdf - (Page 43 to 47)

8 **Internal Audit Plan 2018-19 Consultation**

Report of the Head of Internal Audit

Document Attached:
Internal Audit Plan 2018-19 Consultation.pdf - (Page 48 to 66)

9 **Accounting Policies**

Report of the Corporate Director Strategic Resources

Document Attached:
Accounting Policies.pdf - (Page 67 to 71)

10 **Treasury Management**

Report of the Corporate Director Strategic Resources

Document Attached:
Treasury Management.pdf - (Page 72 to 136)

11 **Review of Assurance over Value for Money**

Report of the Corporate Director Strategic Resources

Document Attached:
Review of Assurance over Value for Money.pdf - (Page 137 to 143)

12 **Central Services Directorate - Internal Audit Work**

Report of the Head of Internal Audit

Document Attached:
Central Services Directorate - Internal Audit Work.pdf - (Page 144 to 157)

13 **Central Services Directorate - Internal Control Matters**

Report of the Corporate Director Strategic Resources

Document Attached:
Central Services Directorate - Internal Control Matters.pdf - (Page 158 to 185)

14 **Counter Fraud and Associated Matters**

Report of the Head of Internal Audit. *Appendices 2 and 3, the discussion of which is likely to involve the likely disclosure of exempt information, circulated to Committee Members only.*

Document Attached:
Counter Fraud and Associated Matters (excluding appendices containing exempt info).pdf - (Page 186 to 212)

15 **Corporate Governance**

Report of the Corporate Director Strategic Resources

Document Attached:
Corporate Governance.pdf - (Page 213 to 230)

16 **Information Governance - Progress Report**

Report of the Corporate Director Strategic Resources

Document Attached:
Information Governance - Progress Report.pdf - (Page 231 to 236)

17 **Audit Committee Programme of Work 2017-18**

Document Attached:
Audit Committee Programme of Work 2017-18.pdf - (Page 237 to 237)

18 **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

Note: Emergency Procedures for Meetings in the Brierley Building at County Hall

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 in front of the main entrance to the Brierley Building. 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

County Councillors (8)

Councillors Name	Chairman/Vice Chairman	Political Group	Electoral Division
ARTHUR, Karl		Conservative	Selby Barlby division
ATKINSON, Margaret	Vice Chairman	Conservative	Masham and Fountains division
BAKER, Robert		Conservative	Sowerby division
CLARK, Jim		Conservative	Harrogate Harlow division
HUGILL, David		Conservative	North Hambleton division
LUNN, Clifford	Chairman	Conservative	Selby Brayton division
MACKAY, Don		NY Independent	Tadcaster division
WEBBER, Geoff		Liberal Democrat	Harrogate Bilton and Nidd Gorge division

Members other than County Councillors – (3) Non Voting

Name of Member	Representation
MARSH, David	Independent Member
PORTLOCK, David	Independent Member
VACANCY, Vacancy	

Total Membership – (11)

Substitute Members

Name of Member	Group
PARASKOS, Andy	Conservative
PATMORE, Caroline	Conservative
BACKHOUSE, Andrew	Conservative
COOPER, Richard	Conservative
THOMPSON, Angus	Conservative
BROADBANK, Philip	Liberal Democrat

North Yorkshire County Council

Audit Committee

Minutes of the meeting held on Thursday 30 November 2017 at 1.30 pm at County Hall, Northallerton.

Present:-

County Councillor Members of the Committee:-

County Councillor Cliff Lunn (in the Chair), County Councillors Karl Arthur, Margaret Atkinson, Robert Baker, Jim Clark, David Hugill, Don Mackay and Geoff Webber

External Member of the Committee:-

Mr David Portlock

In Attendance:-

KPMG Officer: Alastair Newall (Manager)

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

County Council Officers: David Bowe (Corporate Director – Business and Environmental Services), Gary Fielding (Corporate Director – Strategic Resources), Ruth Gladstone (Principal Democratic Services Officer), Anton Hodge (Assistant Director - Strategic Resources, Central Services), Fiona Sowerby (Corporate Risk and Insurance Manager, Central Finance), Louise Wallace (Assistant Director - Health and Integration, Health and Adult Services Directorate) and Richard Webb (Corporate Director – Health and Adult Services)

Apology for absence:-

An apology for absence was presented from Mr David Marsh (Independent Member)

Copies of all documents considered are in the Minute Book

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31. Minutes

Resolved –

That the Minutes of the meeting held on 7 September 2017, having been printed and circulated, be taken as read and be confirmed and signed by the Chairman as a correct record.

32. Declarations of Interest

There were no declarations of interest.

33. Public Questions or Statements

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

34. Health and Adult Services Directorate - Internal Audit Work

Considered -

The report of the Head of Internal Audit which advised of the internal audit work performed during the year ended 31 August 2017 for the Health and Adult Services Directorate and set out the opinion of the Head of Internal Audit concerning the systems of internal control in respect of that area.

Max Thomas (Head of Internal Audit), in introducing the report, highlighted that his overall opinion on the framework of governance, risk management and control operating in the Health and Adult Services Directorate was that it provided “Substantial Assurance”.

During discussion,

- Max Thomas confirmed that no major issues had been identified during Veritau’s assignments which had not resulted in the completion of an audit report. The outcome of on-going fraud work would be reported to a future meeting.

- Max Thomas clarified that, in respect of visits to care provider establishments, the audit opinion of “Limited Assurance” related to The Lodge in Scarborough and the audit opinion of “No Opinion” related to Mencap in Scarborough.

- Max Thomas advised that an audit option of “No Opinion” was given in circumstances where the scope of the audit was limited, a follow-up audit was undertaken to ensure management were addressing issues raised during a previous audit, or where Veritau was providing critical friend support and helping to find solutions.

- Officers advised that the amount of money which had not been recovered from client contributions, due to a failure to update the Liquid Logic and ContrOCC systems in a timely manner, had not been significant. The money had now been recovered and the situation rectified. However, the issue was the administrative costs which had been incurred in order to recover the contributions.

Resolved -

(a) That the information provided in the report be noted.

(b) That it be recorded that the Committee is satisfied that the internal control environment operating in respect of the Health and Adult Services Directorate is both adequate and effective.

35. Health and Adult Services Directorate - Internal Control Measures

Considered -

The report of the Corporate Director – Health and Adult Services which outlined some of the key service risks and governance developments within the Directorate and provided details of the Risk Register for the Health and Adult Services Directorate.

Richard Webb (Corporate Director – Health and Adult Services) introduced the report, highlighting the key governance development risk issues, as set out at section 3.0 of the report, and explained the situation relating to each. The key issues related to:-

commissioning and the market; working with Health including delayed transfers of care; and the medium term financial strategy including the Council's 2020 programme and budget pressures.

Anton Hodge (Assistant Director - Strategic Resources, Central Services) referred to the Health and Adult Services Directorate's Risk Register, as set out in the appendices to the report, and advised that the risks were fundamentally the same now as they were a year previously.

During discussion:-

- County Councillor Jim Clark (Chairman, Scrutiny of Health Committee) advised that, in his opinion, the NHS was in denial about the NHS funding position. He highlighted that each of the CCGs in North Yorkshire was in financial deficit and advised that, as an Accountant, he would not have plugged gaps in funding in the way in which NHS England had advised CCGs to do. He also advised that he felt that the standards of auditing in local government were much better than they were in the NHS. Mr David Portlock added that, in his view, the County Council's governance and management of risk were excellent. Gary Fielding highlighted that NHS England was directive, whereas local government had more autonomy but more checks and balances. Gary Fielding reported that, in the forthcoming weeks, County Treasurer representatives were meeting the National Audit Office and that one of the concerns which the representatives intended to raise was financial reporting in the NHS.

- Mr David Portlock highlighted that the Risk Register did not specify a fall-back plan for financial risk. Gary Fielding (Corporate Director – Strategic Resources) responded that that was a fair challenge and that the Risk Register would be amended accordingly.

- In response to comments from County Councillor Geoff Webber, Richard Webb undertook to provide him with further information concerning private sector rates of pay for Domiciliary Care Workers and the County Council's comparative costs.

Resolved -

(a) That the Risk Register for the Health and Adult Services Directorate be noted.

(b) That the Risk Register for the Health and Adult Services Directorate be amended the inclusion of a fall-back plan for financial risk.

36. Business and Environmental Services Directorate - Internal Audit Work

Considered -

The report of the Head of Internal Audit which advised of the internal audit work performed during the year ended 30 November 2017 for the Business and Environmental Services Directorate and set out the opinion of the Head of Internal Audit concerning the systems of internal control in respect of that area.

Max Thomas (Head of Internal Audit), in introducing the report, highlighted that his overall opinion on the framework of governance, risk management and control operating in the Business and Environmental Services Directorate was that it provided "Substantial Assurance".

In response to questions, Max Thomas confirmed that, although only four audit reports had been issued during the year, there was sufficient evidence to enable him to issue an opinion.

Resolved -

(a) That the information provided in the report be noted.

(b) That it be recorded that the Committee is satisfied that the internal control environment operating in respect of the Business and Environmental Services Directorate is both adequate and effective.

37. Business and Environmental Services Directorate - Internal Control Matters

Considered -

The report of the Corporate Director - Business and Environmental Services which provided an update on progress against areas for improvement identified through internal procedures, together with the latest Risk Register for the Business and Environmental Services Directorate.

David Bowe (Corporate Director – Business and Environmental Services) introduced the report, highlighting the progress made, as set out at section 3.0 of the report, in areas for improvement and explaining the situation relating to each. The areas related to:- a review of the governance of LEPs; projects within the 2020 Programme regarding LED street lighting and street works; projects within the Capital Programme regarding Kex Gill and the A1 junction 47; and community transport.

- Mr David Portlock highlighted that some risks within the Risk Register did not specify a fall-back plan eg for the Minerals and Waste Development Framework. David Bowe responded that the fall-back plan for the Minerals and Waste Development Framework would be to continue to go through the process. However, if the County Council had a difference of opinion with the City of York Council or the National Park, then the fall-back position would be to go back to a certain point with one or other of the partners or on our own.

- Members congratulated David Bowe on progress of various work relating to highways.

Resolved -

(a) That the updates on progress against areas for improvement be noted.

(b) That the Risk Register for the Business and Environmental Services Directorate be noted.

38. 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) which advised of progress on issues which the Committee had raised at previous meetings, together with an update concerning Treasury Management.

Gary Fielding (Corporate Director – Strategic Resources) introduced the report and, in particular, asked whether the Health and Adult Services Directorate had, for now, provided Members with sufficient information to satisfy the Committee's resolution at

Minute 146 regarding Health governance. Members expressed the view that sufficient information had been provided by for now.

In respect of Treasury Management, Mr David Portlock indicated that he had not received a copy of the most recent quarterly report to the Executive. Gary Fielding advised that he would ensure that it was circulated.

Resolved -

(a) That the report be noted.

(b) That the Health governance information requested at Resolution 146 be regarded as complete and be deleted from the table in the Progress on Issues report to the next meeting.

(c) That the most recent quarterly report to the Executive, regarding Treasury Management, be emailed to Members of the Committee.

39. External Auditor's Annual Audit Letter 2016-17

Considered -

KPMG's Annual Audit Letter 2016/17 which summarised the key matters arising from the External Audit work that KPMG had carried out in respect of the year ended 31 March 2017.

Alastair Newall (KPMG) introduced the report, highlighting that the Committee had received, at its meeting on 7 September 2017, the information now included in the Annual Audit Letter. The Annual Audit Letter was a requirement of legislation. Alastair Newall advised that there were no issues which he wished to highlight.

It was noted that there was a typographical error on page 4 of the letter, namely, that "2016/17" should read "2017/18" so that the relevant sentence would consequently say "We will formally follow up these recommendations as part of our 2017/18 work".

In response to a question, Alastair Newall advised that the one medium priority recommendation to which the letter referred related to the Fixed Asset Register.

Members enquired whether the External Auditor had any comments following on from the Committee's discussion at the beginning of this meeting regarding more integrated working with the NHS and, in particular, regarding the NHS's financial systems and whether there was likely to be any impact on KPMG's work as the County Council's External Auditor. Alastair Newall reported that there were well publicised huge financial challenges in both NHS and Local Government. He was not aware that there were Accountable Care Organisations in North Yorkshire but there were developments elsewhere in the country. Also there were many differences between the way the NHS accounted, managed and controlled things and the way that that was done in local government. He suggested that those differences had to be addressed in order to make any joint organisations work and report effectively.

County Councillor Jim Clark (Chairman, Scrutiny of Health Committee) highlighted that a Health Bill had been scheduled for inclusion in the Queen's Speech but that the Bill had been dropped and consequently there was no statutory framework for STPs. He anticipated that, at some point, there would be a governance issue. He asked Alastair Newall whether he saw that as being a problem for auditing firms. Alastair Newall responded that currently STP expenditure is accounted for in existing NHS or LG organisations which are audited by the firms. If that arrangement changed then it would need to be clear how STPs fitted into the statutory governance, reporting and audit framework before it became an area of attention for audit firms. He also reported that there were differences in the approach to governance in the NHS and local government but that didn't mean NHS organisations didn't have a focus on governance.

Resolved -

That the Annual Audit Letter be noted.

40. Governance and External Companies

Considered -

The report of the Corporate Director - Strategic Resources which provided an update on arrangements that had been put into place to ensure effective governance of the range of external companies that the County Council had an interest in. A report to the Executive's meeting on 17 October 2017 was appended to the report.

Gary Fielding (Corporate Director – Strategic Resources) introduced the report, highlighting:- the increase, in recent years, in the number of North Yorkshire County Council commercial companies; that it was important that there was good governance in respect of external companies; and that the County Council needed to ensure that the companies were working in the best interests of the County Council as shareholder. Gary Fielding also highlighted that the County Council's Executive had recently created a Shareholders Committee, which was a sub-committee of the Executive, together with a Stakeholder Board which aimed to ensure a good business planning approach.

County Councillor Geoff Webber advised that he was not comfortable with the arrangements and explained the reasons why. He suggested that a member of the political opposition within the County Council should be involved in the arrangements to provide an accountable balance. In response, Gary Fielding advised that:- if this arrangement was not introduced, there would be less governance; the arrangement fitted well with the Corporate and Partnerships Overview and Scrutiny Committee's remit; Audit Committee had a role in ensuring the arrangements were compliant with good practice; as the Shareholders Committee was a sub-committee of the Executive, its agendas would be published, elected Members could see the reports and attend its meetings, although members of the public would be excluded from commercially sensitive information; the County Council's call-in arrangements would apply.

Gary Fielding clarified that North Yorkshire Education Traded Services to schools/academies was not part of the governance arrangements because it was not a stand-alone company. However, it would have the same sort of approach to business planning as the external companies.

Mr David Portlock advised that he had previously notified officers of some concerns he had with high level issues. One of those issues, regarding where the democratic oversight would come into it, had been picked-up by County Councillors Geoff Webber and Don Mackay. He advised that he was comfortable with Gary Fielding's response on that matter. Mr David Portlock advised that his second concern was that the report to the Executive was almost conflating a PLC independent business with the conditions under which a local authority must operate. The two were very different and the situation would have to be monitored. He commented that the external companies were going to have to run as commercially as possible or otherwise they would not survive and contribute anything to County Council finances. Mr David Portlock advised that his third concern was that, a few years previously, the City of York Council had made mistakes and sought an assurance that there would be no possibility of that happening with the remuneration and other things relating to elected Members and others involved in the County Council's external companies. Gary Fielding responded by giving an assurance that there would be no remuneration issues because, for example, he was a director on several companies and that was part of his job of the County Council's Corporate Director – Strategic Resources. The more challenging issue was potential conflicts of interest and, in that regard, elected Members and officers would need to be very careful and opt out of discussions where necessary. Gary Fielding advised that Barry Khan (Assistant Chief Executive (Legal and Democratic Services) and Monitoring Officer) had wanted to be in attendance for this discussion but instead had sent apologies because he had another important commitment elsewhere.

Resolved -

That the report and the comments made by elected Members and Mr David Portlock be noted.

41. Audit Committee Terms of Reference/Review of Effectiveness

Considered -

The report of the Corporate Director - Strategic Resources which proposed changes to the Audit Committee's terms of reference, in line with the requirement to review the terms of reference on an annual basis, and asked the Committee to consider whether to proceed with a review of its effectiveness and the form and scope of any review.

Max Thomas (Head of Internal Audit) introduced the report, highlighting that the proposed changes to the Committee's terms of reference were minor in nature. He also highlighted that, with regard to a review of the Committee's effectiveness, the results of the previous survey had now been provided to Committee Members.

During discussion:-

- It was suggested that it might be helpful to seek officers' views separately about the effectiveness of the Committee in any future survey.

- Various Members expressed the view that the Committee was currently working effectively. They suggested waiting a year before repeating the survey.

Resolved -

(a) That it be a recommendation to the County Council - That the proposed changes to the terms of reference of the Audit Committee, as set out in Appendix A to the report, be approved.

(b) That a review of the Committee's effectiveness be undertaken after November 2018 and, in the meantime, the Chairman take informal soundings from individual Members on a one-to-one basis and the Corporate Director Strategic Resources speak with relevant officers on a one-to-one basis to seek any comments they may have regarding the effectiveness of the Committee.

42. Risk Management - Progress

Considered -

The report of the Corporate Director - Strategic Resources which provided details of the updated Corporate Risk Register and progress on other Risk Management related matters.

Fiona Sowerby (Corporate Risk and Insurance Manager, Central Finance) introduced the report, highlighting the following:- a new risk ‘Commercial Strategy’ had been included in the Corporate Risk Register to reflect the need successfully to secure commercial opportunities where appropriate; two risks, ie ‘Schools Organisation and Funding’ and ‘Health and Safety’, had changed significantly within the Register; a diagram was appended to the report to illustrate links between Corporate and Directorate Risk Registers; additional workshops had been carried out to develop risk registers for various specific areas of activity; and the outcomes from the 2017 insurance renewals.

Resolved -

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

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

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

43. Audit Committee - Programme of Work

Considered -

The Committee’s Programme of Work which listed business scheduled for future meetings.

During discussion:-

- Gary Fielding confirmed that the Procurement Strategy business would encompass Contract Management.

- Alastair Newall advised that KPMG would have no objection if the County Council wished to organise early briefings with its new External Auditor.

Resolved -

That the following changes be made to the Programme of Work:-

(a) A joint session be held immediately prior to the Committee’s meeting in March 2018 when both External Audit and Internal Audit shall brief Committee Members on an informal basis.

(b) The briefing to be held immediately prior to the Committee’s meeting in June 2018 be for the purpose of updating on the overall budget position.

(c) “2015/16” be amended to “2017/18” so that the relevant entry on the Programme reads “Annual Audit Plan 2017/18 (NYCC & NYPS)”.

The meeting concluded at 3.25pm.

RAG/JR

3 **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.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 March 2018

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?
30.11.17	35 – Health and Adult Services Directorate – Internal Control Measures	That the Risk Register for HAS Directorate be amended to include a fall-back plan for financial risk.	No update at this stage	x
	38 – Progress on issues raised by the Committee	That the most recent quarterly report to the Executive, regarding Treasury Management, be emailed to Members of the Committee	This has now been circulated.	✓
	41 – Audit Committee Terms of Reference / Review of Effectiveness	That a review of the Committee's effectiveness be undertaken after November 2018 and in the meantime, the Chairman take informal soundings from individual Members on a 1 to 1 basis and the CD Strategic Resources speak with relevant officers on a 1 to 1 basis to seek any comments	No action required at this stage	x

Date	Minute number and subject	Audit Committee Resolution	Comment	Complete?
		they may have regarding the effectiveness of the Committee		
	43 – Audit Committee – Programme of Work	A joint session be held immediately prior to the Committee's meeting in March 2018 when both External and Internal Audit shall brief Committee Members on an informal basis.	This will take place before the meeting on 1 March	✓
		The briefing to be held immediately prior to the Committee's meeting in June 2018 be for the purpose of updating on the overall budget position.	This has been included in the Work Programme	✓
		2015/16 be amended to 2017/18 so that the relevant entry on the Programme reads "Annual Audit Plan 2017/18 (NYCC & NYPS)"	This has now been amended on the Work Programme	✓

3.0 TREASURY MANAGEMENT

3.1 Link Asset Services have updated their interest rate forecasts on 13 February (last updated November 2017) to take into account the Bank of England quarterly Inflation Report for February 2018, the decision of the MPC meeting of 8 February. Link have now added an additional bank rate rise in May 2018 in addition to those already forecasted for November 2018, November 2019 and August 2020. With rates forecast to rise to 1.50% by August 2020.

3.2 Following the consultation period in November 2017, the Ministry for Housing, Communities and Local Government has now issued updated statutory guidance on Local Authority Investments and Minimum Revenue Provision. This follows the Revised Prudential Code and Treasury Management Code issued by CIPFA. It is clear that the intent, similar to the revised CIPFA Codes, is to address risks surrounding non-treasury related investments. It sets out a framework primarily for risk management, with the main change being the wider scope of the definition of investment and the apparent control of borrowing for these activities.

3.3 Where required, changes have been incorporated into the 2018/19 Treasury Management Strategy, where the most notable change is the inclusion of the Capital Strategy. This sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

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

1 March 2018

Background Documents: Report to, and Minutes of, Audit Committee meeting held on 30 November 2017

KPMG

External Audit Plan 2017/18

North Yorkshire County Council
North Yorkshire Pension Fund

—

February 2018

Summary for Audit Committee

Financial statements	There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Council need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018. **Materiality** Materiality for planning purposes has been 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: – **Valuation of PPE** – Whilst the Council operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Council ensures that assets not subject to in-year revaluation are not materially misstated; – **Pension Liabilities** – The valuation of the Authority's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation. – **Faster Close of Accounts –** The requirements this year are to produce the draft accounts by 31 May 2018, and to publish the audited accounts by 31 July 2018. The Council has seen a turnover of key finance staff in recent years and this has led to a loss of experience and knowledge in the finance team. This places additional resource pressures on the finance team, and increases the inherent risk that any experience or knowledge gaps leads to misstatements in the financial statements, especially given the shortened timescales this year. – **Accounting treatment of the Allerton Waste Recovery asset –** The 2017/18 financial statements will be the first period in which this asset is included within the Council's accounts. Due to the inherently complex nature of accounting for these kinds of assets, there is a risk that the accounting or disclosures will contain mis-statements.

Summary for Audit Committee (cont.)

Financial Statements (cont.)	**Pension Fund risks** In relation to the Pension Fund audit, we have not identified any specific significant risks for our audit in 2017/18. **See pages 3 to 10 for more details**
Value for Money Arrangements work	Our risk assessment regarding your arrangements to secure value for money has not identified any VFM significant risks to date. **See pages 11 to 14 for more details**
Logistics	Our team is: – Rashpal Khangura – Director – Alastair Newall – Manager More details are in **Appendix 2**. Our work will be completed in four phases from November 2017 to July 2018 and our key deliverables are this Audit Plan and a Report to Those Charged With Governance as outlined on **page 17**. Our fee for the 2017/18 audit is **£94,490** for the Authority and **£24,943** for the Pension Fund see **page 16**. These fees are in line with the scale fees published by PSAA.

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

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in April 2017, 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, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

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

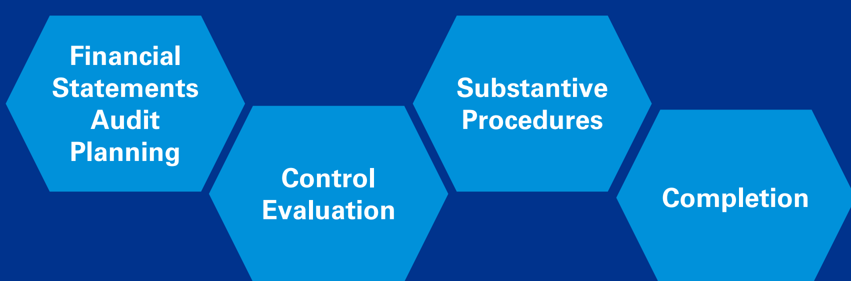
01 **Council and Pension Fund Financial statements :**
Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

02 **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. Any change to our identified risks will be reporting to the Audit Committee.

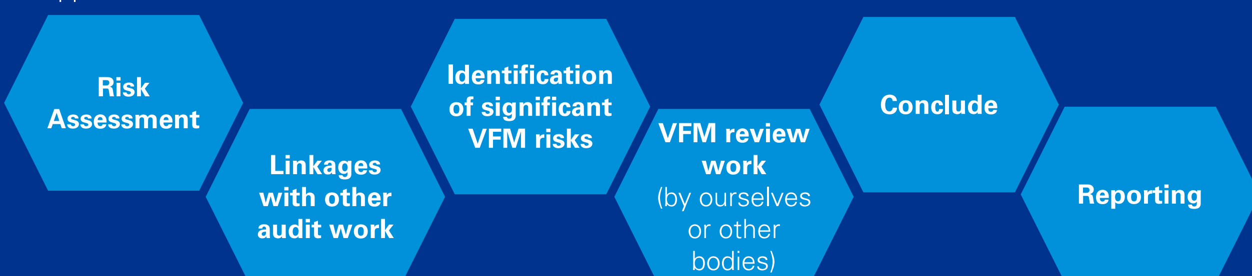
Financial Statements Audit

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 11 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during November and December 2017. This involves the following key aspects:

— Determining our materiality level;

— Risk assessment;

— Identification of significant risks;

— Consideration of potential fraud risks;

— Identification of key account balances in the financial statements and related assertions, estimates and disclosures;

— Consideration of management's use or experts; and

— Issuing this audit plan to communicate our audit strategy.

Risk assessment

Auditing 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.

01

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.

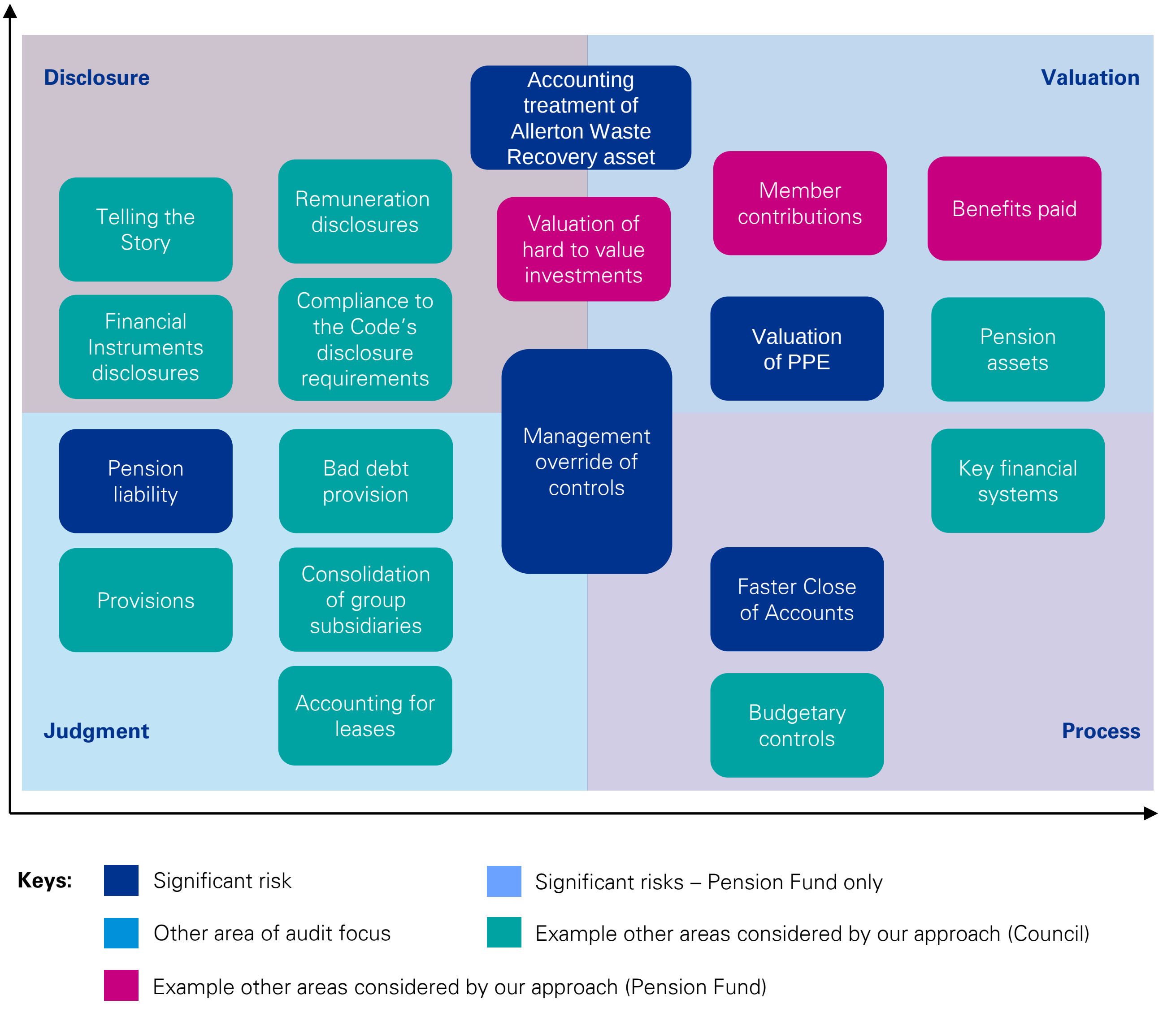
02

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.

Financial statements audit planning (cont.)

The diagram below identifies significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Financial statements audit planning (cont.)

Significant Audit Risks – Council

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

Risk:	**Valuation of PPE** The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.
Approach:	We will review the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year. In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time. In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Financial statements audit planning (cont.)

Significant Audit Risks – Council (cont.)

Risk:	**Pension Liabilities** The net pension liability represents a material element of the Council's balance sheet. The Authority is an admitted body of North Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.
Approach:	As part of our work we will review the controls that the Council has in place over the information sent to the Scheme Actuary, including the Council's process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of AON Hewitt. We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by AON Hewitt. In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

Financial statements audit planning (cont.)

Significant Audit Risks – Council (cont.)

Risk:

Faster Close of accounts

In 2017/18 the Council must produce its draft accounts by 31 May 2018, and the audited accounts should be published by 31 July 2018. In recent years the Council has seen a number of experienced finance staff leave the County Council, and this has continued in 2017/18. These staff had a significant amount of experience of both the Council's processes and the reporting requirements of the Code. This is particularly true regarding finance staff with experience of local authority capital accounting.

The potential resulting knowledge and experience gap increases the risk of mis-statements in the Council's financial statements, particularly in light of the shortened timetable for producing the accounts in 2017/18.

Approach:

The nature of this risk is not able to be covered by traditional audit tests, and hence our approach to gaining assurance will incorporate a focus on:

- Regular conversations and liaison with the finance team, including the Strategic Director of Corporate Resources to establish the Council's plans to ensure materially correct draft accounts are produced by the revised deadlines;
- Discuss with the finance staff the audit process and timetable, the audit requirements, and the role of the finance team in the audit;
- Focused audit testing in specific areas, for example journal transfers and year end accruals, to provide specific assurance that material issues have been dealt with appropriately;
- We will also discuss with Council finance officers the potential to bring forward elements of our year end testing into our initial audit visit, in order to identify any likely mis-statements as soon as possible.

Risk:

Accounting treatment of the Allerton Waste Recovery asset

The 2017/18 financial statements will be the first to include the asset relating to the Allerton Waste Recovery Public Private Partnership (PPP) contract which was entered into by the Council in 2014.

This contract has complex terms which are different to other contracts to which the Council is party. The Council will need to determine the appropriate accounting treatment, as well as a fair value valuation of any assets and liabilities, an appropriate recognition of income and expenditure, and required disclosures.

Approach:

We plan to review the Council's proposed accounting treatment in advance of our main audit visits. This will enable us to confirm that the proposed treatment is in line with accounting standards and the CIPFA Code before the accounts preparation phase commences.

We will also gain an understanding of how the financial model relating to the project has been produced by considering the key assumptions as well as the terms included in the project agreement.

Financial statements audit planning (cont.)

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 both the Council 's standalone accounts and for the group accounts, which equates to 1.4 percent of gross expenditure.

For the Pension Fund, materiality for planning purposes has been set at £**25** million which equates to 0.8 percent of total assets.

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

Council and Group

Prior Year Gross Expenditure: £1,045m

Materiality

£15m

1.4% of Expenditure

(2016/17: £15m, 1.4%)

£750k Misstatements reported to the audit committee (2016/17: £750k)

£10m Procedures designed to detect individual errors (2016/17: £10m)

£15m Materiality for the financial statements as a whole (2016/17: £15m)

Pension Fund

Pension Fund - Prior Year Gross Assets : £3,022m

Materiality

£25m

0.8% of Expenditure

(2016/17: £25m, 1%)

£1.25m Misstatements reported to the audit committee (2016/17: £1.25m)

£17m Procedures designed to detect individual errors (2016/17: £17m)

£25m Materiality for the financial statements as a whole (2016/17: £25m)

Financial statements audit planning (cont.)

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 has 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.

We will report:

- Non-Trivial corrected audit misstatements
- Non-trivial uncorrected audit misstatements
- Errors and omissions in disclosure (Corrected and uncorrected)

Group audit

In addition to the Council, the Group Accounts include the following subsidiaries:

- Align Property Partners Limited;
- NYnet Limited;
- Yorwaste Limited

We do not believe the consolidation of the Council's subsidiaries to be a significant risk and we will test the consolidation process and agree the entries to the subsidiary accounts.

We will reassess the significance of these subsidiaries throughout our audit and will report any changes in our risk assessment or planned audit approach to the Audit Committee.

Value for money arrangements work

VFM audit approach

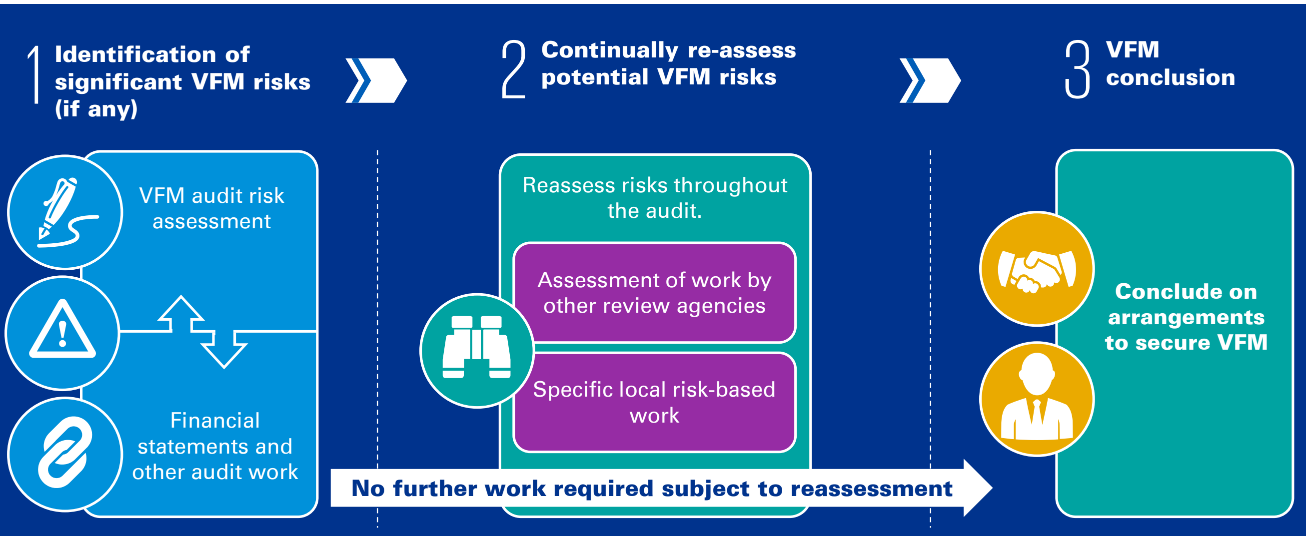
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

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.'

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.

The VFM approach is fundamentally unchanged from that adopted in 2016/17 and the process is shown in the diagram below. The diagram overleaf shows the details of the sub-criteria for our VFM work.



Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

- Acting in the public interest, through demonstrating and applying the principles and values of sound governance.
- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management.
- Reliable and timely financial reporting that supports the delivery of strategic priorities.
- Managing risks effectively and maintaining a sound system of internal control.

Sustainable resource deployment

Proper arrangements:

- Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.
- Managing and utilising assets to support the delivery of strategic priorities.
- Planning, organising and developing the workforce effectively to deliver strategic priorities.

Working with partners and third parties

Proper arrangements:

- Working with third parties effectively to deliver strategic priorities.
- Commissioning services effectively to support the delivery of strategic priorities.
- Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money arrangements work (cont.)

VFM audit stage

VFM audit risk assessment

Audit approach

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.

Linkages with financial statements and other audit work

Audit approach

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 Authority'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

Audit approach

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

Assessment of work by other review agencies, and Delivery of local risk based work

Audit approach

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.

We will also consider the evidence obtained by way of our financial statements audit work and other work already undertaken.

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will 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:

- Additional meetings with senior managers across the Council;
- Review of specific related 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

Audit approach

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

Audit approach

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.

Other matters

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 2017/18 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.

Other matters

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 the 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 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage, but we expect that, as in previous years, the auditors of other scheduled bodies to North Yorkshire Pension Fund will request us to carry out audit procedures for their audits. Should this be the case, consistent with previous years, we will request additional fees from Public Sector Audit Appointments Ltd reflecting the time spent on these additional procedures.

Should there be a need to charge additional audit fees then this will be agreed with the s.151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £94,490 for the Council. The planned audit fee for 2017/18 is £24,943 for the Pension Fund. These fees are unchanged from 2016/17 and are in line with the scale fees published by PSAA.

Appendix 1:

Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

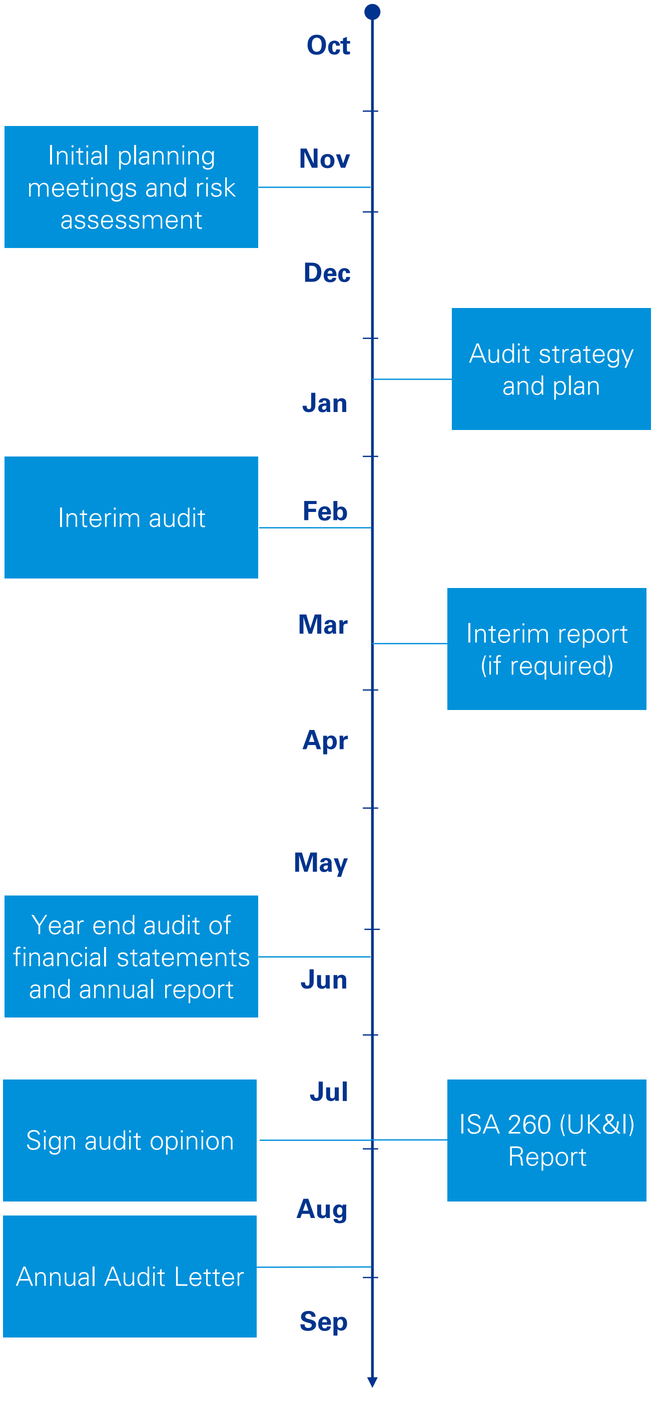
Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

- 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 journals.

Communication

Continuous communication involving regular meetings between Audit Committee, Senior Management and audit team.



Appendix 1:

Key elements of our financial statements audit approach (cont.)

Audit workflow

Planning

- Determining our materiality level;
- Risk assessment;
- Identification of significant risks;
- Consideration of potential fraud risks;
- Identification of key account balances in the financial statements and related assertions, estimates and disclosures;
- Consideration of managements use or experts; and
- Issuing this audit plan to communicate our audit strategy.

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

Appendix 2:

Audit team

Your audit team has been drawn from our specialist public sector assurance department.

Rashpal Khangura
Director

T: +44 (0) 113 231 3396
E: rashpal.khangura@kpmg.co.uk

'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.'

Alastair Newall
Manager
T: +44 (0) 113 231 3552
E: alastair.newall@kpmg.co.uk

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.
I will work closely with [director to ensure we add value.
I will liaise with the Director of Finance and other Executive Directors.'

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF NORTH YORKSHIRE COUNTY COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 3:

Independence and objectivity requirements (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

For 2017/18, as in previous years, we are intending to provide the following non-audit work:

- Report on Teachers' Pensions Annual Return

We do not expect the fees from this work to impact on our independence and objectivity as your external auditor.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

kpmg.com/uk

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.

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NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 MARCH 2018

PROGRESS ON 2017/18 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 2017/18 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 2017/18 Audit Plan on the 22 June 2017. The total number of planned audit days for 2017/18 is 1,134 (plus 956 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 2017/18 Audit Plan is progressing.

3.0 INTERNAL AUDIT PLAN PROGRESS BY 31 JANUARY 2018

3.1 The internal audit performance targets for 2017/18 were set by the County Council's client officer. Progress against these performance targets, as at 31 January 2017, 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 2018 (the cut off point for 2017/18 audits). **Appendix 2** provides details of the final reports issued in the period. A further 10 audit reports have been issued but remain in draft and fieldwork is underway with the majority of other scheduled audits.

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, 41 cases of suspected fraud or malpractice have been referred to Veritau for investigation. 15 of these are internal fraud cases, 15 relate to social care and 4 are external fraud. A further 7 cases relate to applications for school places. A number of these investigations are still ongoing. Further details about the types of cases are provided in the annual fraud report which is also on this agenda.

Information Governance

3.4 Veritau's Information Governance Team (IGT) continues to handle a significant number of information requests submitted under the Freedom of Information and Data Protection Acts. The number of FOI requests received between 1 April 2017 and 31 January 2018 is 1,031 compared with 1,076 requests received during the corresponding period in 2016/17. The IGT is currently exceeding the performance response target of 95% for 2017/18 with approximately 96.3% of requests so far being answered within the statutory 20 day deadline. The IGT also coordinates the County Council's subject access requests (SARs) and has received 162 such requests between 1 April 2017 and 31 January 2018.[1]

3.5 Veritau is assisting the County Council to prepare for the implementation of the General Data Protection Regulations (GDPR) on 25 May 2018 and to ensure the overall information governance framework is effective. This work includes supporting directorates to update their information asset registers, preparing data sharing agreements, recording data security incidents, investigating serious information security breaches, and providing advice and training. As part of this, Veritau auditors also 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. Veritau will act as the County Council's Data Protection Officer following the implementation of GDPR.

Variations to the 2017/18 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 progress report. The variations follow discussions with management and reflect changes in current priorities:

Department of Transport grant (verification of data)	+8 days
Data breach investigations (additional allocation)	+10 days
P2P project (data analysis)	+5 days
Information governance (additional allocation)	+27 days
HAS bed returns	+15 days
Care providers (additional allocation)	+15 days
HAS Liquid Logic system	-20 days
Continuing health care	-20 days
Home to school transport	-8 days
Risk management (defer to 2018/19)	-12 days
Performance management (defer to 2018/19)	-20 days
Net change to plan	**nil**

[1] The processing of SARs was changed in 2016/17. Requests were previously answered by individual directorates.

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 2017/18 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

13 February 2018

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

Appendix 1

PROGRESS AGAINST 2017/18 PERFORMANCE TARGETS (AS AT 31/1/2018)

Indicator	Milestone	Position at 31/1/2018
To deliver 93% of the agreed Internal Audit Plan	93% by 30/4/18	46.74%
To achieve a positive customer satisfaction rating of 95%	95% by 31/3/18	100%
To ensure 95% of Priority 1 recommendations made are agreed	95% by 31/3/18	100%
To ensure 95% of FOI requests are answered within the Statutory deadline of 20 working days	95% by 31/3/18	96.31%

Appendix 2

FINAL 2017/18 AUDIT REPORTS ISSUED TO DATE

Audit Area	Directorate	Overall Opinion
Information security incidents x 3	Corporate	No opinion
Information security compliance (North Yorkshire House)	Corporate	Reasonable assurance
Information security compliance (White Rose House)	Corporate	Limited assurance
Information security compliance (Employment Support Services)	Corporate	High assurance
Information security compliance (North Block – County Hall)	Corporate	Reasonable assurance
Information security compliance (Racecourse Lane)	Corporate	Reasonable assurance
Information security compliance (The Lodge)	Corporate	High assurance
Transparency	Corporate	Limited assurance
IR35	Corporate	Substantial assurance
Partners in Practice	CYPS	High assurance
Developing Stronger Families x 3	CYPS	High assurance (x 3)
Local Growth Fund - grant audit (chargeable)	BES	No opinion
Growth Hub – grant audit (chargeable)	BES	No opinion
Concessionary fares	BES	Substantial assurance
Controls for residential care	HAS	Reasonable assurance
Public health	HAS	Substantial assurance
Care home visit (Scarborough Mencap)	HAS	No opinion
Care home visit (The Lodge, Scarborough)	HAS	Limited assurance
Care home visit (Moorview, Whitby)	HAS	High assurance
Care home visit (UBU Roche Avenue, Harrogate)	HAS	Substantial assurance
Foundation Housing	HAS / Procurement	No opinion
Dalewood (follow up)	HAS / Procurement	No opinion
Best Value Forms Compliance (April - September)	Procurement	No opinion

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 MARCH 2018

2018/19 INTERNAL AUDIT PLAN CONSULTATION

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 2018/19, 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 Audit Committee is therefore being asked to identify any specific areas which should be considered a priority for audit.

3.0 AUDIT PLAN 2017/18

3.1 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 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 will include:

[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. This may include providing direct support / challenge to projects, reviewing project management arrangements, or 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 individual transformation projects, preparations for the introduction of the General Data Protection Regulation (GDPR), ongoing data security compliance, health and social care integration, and increased commercial activities.

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 are being canvassed in preparing the 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 will also be 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.

3.7 The outline Internal Audit Plan for 2017/18 is attached at **Appendix 1.** As consultation meetings are still ongoing this should not be regarded as the complete list of audits.

4.0 **RECOMMENDATION**

4.1 Members are requested to consider and comment on the outline Internal Audit Plan for 2018/19 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

9 February 2018

Background Documents: None

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

Appendix 1

NORTH YORKSHIRE COUNTY COUNCIL
DRAFT INTERNAL AUDIT PLAN 2018/19

CORPORATE / CROSS CUTTING **Days**

Performance management

A review of the effectiveness of the Council's performance management framework. This will include a review of the overall corporate reporting arrangements and a number of specific service areas to assess the effectiveness of their performance management systems.

Savings Delivery

An audit of the effectiveness of savings plans, monitoring, reporting arrangements and achievement of targets. The audit will focus primarily on CYPS.

Information governance (data breaches)

An allocation of time to investigate significant data security incidents and/or provide support to other internal investigations. The allocation will also include follow up reviews to ensure remedial action has been taken by service areas where appropriate.

Information governance (data security compliance)

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

Risk management

An effectiveness review of how specific service areas manage their risks. The audit will also review project risk management.

Payroll / HR

An audit of payroll / HR controls and processing. The review will include the payment of overtime and allowances. We will use the IDEA data analysis tool to focus on a number of key risk areas.

Contractor Due Diligence

A review of the processes of due diligence, both at the tender stage and during the lifetime of the contract. Work will also cover supply chain resilience and the need to ensure diversity of supply.

Commercial Operations

A review of the Council's arrangements for managing risks associated with its new commercial companies. The audit will examine the effectiveness of the overall governance arrangements but not the internal operations of the companies themselves.

Transparency (follow up)

A review of the Council's compliance with the requirements of the Local Government Transparency Code.

Money Laundering

An allocation of time to complete a detailed anti money laundering and terrorist financing risk assessment. An action plan will also be produced highlighting any remedial actions which are considered necessary to address risks in this area.

IDEA data analytics and data matching

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

HEALTH AND ADULT SERVICES **Days**

Liquid Logic and ContrOCC

The audit will review a sample of key controls in the Liquid Logic and ContrOCC systems.

Payments for Residential Care

A review of the system for processing changes in residential and nursing home placements. The audit will examine whether the Council is being notified of changes, particularly deaths, in a timely manner and whether all relevant systems are updated correctly. The review will also consider the system of 'bed returns' and will build on audit work completed in 2017/18.

Financial Assessments

A review of the effectiveness of key controls in place for undertaking financial assessments and the relationships with the wider social care assessment processes. The work will include a review of deferred payments. The adequacy of the measures to identify and report possible fraud will also be examined.

Direct payments

A review of the systems and procedures to ensure Direct Payment Agreements are managed in line with the Council's approved policies. The adequacy of the measures to identify and report possible fraud will also be examined.

Deprivation of Assets

A review of the systems and procedures that ensure deprivation of asset cases are managed in line with the Council's approved policies.

Visits to Care Providers

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 a small number of care providers and provider services to give assurance that appropriate financial controls are in place and operating effectively.

Visits to Botton Village and Avalon

To re-visit Botton Village and Avalon (following the 2017 audit visits) to assess the extent to which previous risks and any new risk areas are being effectively managed.

HEALTH AND ADULT SERVICES **<u>Days</u>**

Public Health

To provide assurance on the management of key risks facing Public Health.

Total – Health and Adult Services

BUSINESS AND ENVIRONMENTAL SERVICES	Days
Highways maintenance contract	
A review of the key risk areas in respect of the highways maintenance contract with Ringway.	
Street Lighting	
A review of the project management and management of risks associated with this major scheme.	
Local Enterprise Partnership	
A review of governance and management processes associated with the Local Enterprise Partnership. The work will consider the risks highlighted by DCLG's 'Review of Local Enterprise Partnership Governance and Transparency' in their report published in October 2017.	
Allerton Waste Recycling Park	
A review of the systems in place to manage payments and enable effective management of the waste contract.	
Kex Gill Realignment Scheme	
A review of the project management and management of risks associated with this major scheme.	
Total – Business and Environmental Services	

CENTRAL SERVICES **<u>Days</u>**

Main accounting

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

Creditors

To support and provide challenge to the introduction of the new P2P processes via membership of the P2P Project Board. In addition, we will review the key controls and systems in operation during the year to process creditor invoices and payments.

Budgetary preparation and management

A review of budget preparation processes and the systems for ongoing budget monitoring and reporting.

Credit Control, Debt Management and Recovery

A review of the management of debts outstanding including commercial debts and the arrangements for debt recovery.

Closedown of the Statement of Accounts

A reflective examination of the effectiveness of closedown procedures and the production of the Statutory accounts in 2017/18. The review will identify any lessons for future years given the earlier deadlines for each stage (the draft accounts now need to be prepared by 31 May and the audited accounts published by 31 July).

Payment Card Industry Data Security Standard

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

Financial Processes

To review the adequacy of controls within automated financial processes including the BACs Bureau and Direct Debits.

Treasury Management

To review whether the Council’s arrangements comply with the requirements of the new CIPFA code on Treasury Management in the Public Services.

Total – Central Services

CHILDREN AND YOUNG PEOPLE'S SERVICES   **Days**

Adult Learning

The service was inspected by Ofsted in May/June 2017, and the audit will review progress made in implementing actions identified following that inspection.

Children Leaving Care

A review of the processes in place to manage the transition for children leaving care and payments made on behalf of care leavers.

Fostering & Payments to Carers

A review of the processes and controls in place for making payments to foster carers and ensuring suitable carers are available. The review will also include a review of the payments and processes for Special Guardianship Orders, Child Arrangement Orders, Adoption Order Allowances and Residence Order Allowances.

Home to school transport

Home to school transport costs over £20m per annum and currently expenditure exceeds budget. An audit was planned for 2017/18, but this was postponed due to a review of the service, and planned service changes. This audit will review the implementation of the actions previously agreed in the 2015/16 audit, but also other actions taken by management since then to improve control of the budget.

County Catering

An audit was carried out during 2016/17 that provided Reasonable Assurance. The actions resulting from this audit mainly consisted of the introduction of a new electronic system that would replace a number of inefficient paper based processes. This audit will examine the new system, and how this is operating to improve efficiency and data quality.

Developing Stronger Families

The Council receives funding from DCLG as part of the Troubled Families Programme. DCLG guidance expects internal audit to carry out a 10% check of each funding claim submitted.

CYPS Pensions Enhancements

The CYPS budget includes a figure for pre 1996 pension enhancements. It is expected that this figure will reduce over time, and the audit will look to identify the process in place to achieve that reduction.

CHILDREN AND YOUNG PEOPLE'S SERVICES **Days**

Schools Financial Value Standard (SFVS)

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

Schools themed audits

Provision for 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 compliance with the new GDPR and of wider information governance requirements, procurement and E-trading, and issues around the extended early years entitlement in schools. There will also be a small additional allowance for visits to individual schools with known issues.

Audit support and advice to schools

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

Total – Children and Young People's Services

COMPUTER AUDIT **Days**

Technology and Change is accredited with ISO 27001. We have a developed an audit programme that will examine compliance in each area of ISO 27001 over a five year period. The audit(s) would also include testing to ensure compliance with the IT elements of the General Data Protection Regulation (GDPR) such as data retention schedules and privacy and protection of personally identifiable information.

Provision to provide support and advice on IT audit matters.

Total – Computer Audit

PROCUREMENT AND CONTRACT AUDIT **Days**

Support to the development of the Procurement Strategic Action Plan

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

Specific procurement and contract management based reviews

An allocation of time to undertake individual procurement and contract management reviews.

Total – Procurement and Contract Audit

NORTH YORKSHIRE PENSION FUND	**<u>Days</u>**
A programme of audits designed to review the management of Pension Fund risks, to be agreed with the Pensions Board.	
Provision to provide support and advice on Pension Fund related audit matters.	
Total – North Yorkshire Pension Fund	

COUNTER FRAUD AND CORRUPTION **<u>Days</u>**

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

Data Matching

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

Fraud Awareness

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

Fraud Detection and Investigation

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

Other Counter Fraud Related Work

Provision to provide other counter fraud and corruption work including:

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

Total – Counter Fraud and Corruption

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 the Council's policy framework and data protection legislation (including undertaking a programme of audits) as Data Protection Officer
- the investigation of serious data security incidents, the coordination of remedial activity and liaison with the Information Commissioner's Office
- the provision of advice and guidance on all related matters (including privacy notices, data protection impact assessments, data sharing agreements and information asset registers).

Total – Information Governance

OTHER CHARGEABLE AUDIT WORK **Days**

Follow up

Provision to follow up previously agreed audit recommendations.

Corporate governance strategy

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

Audit planning

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

Audit support, advice and liaison

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

External audit liaison

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

Audit Committee

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

Contingency

Provision to undertake additional work in response to:

- specific requests from the Corporate Director – Strategic 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

SUMMARY OF AUDIT DAYS 2015 TO 2019

Audit Area	2018/19	2017/18	2016/17	2015/16
Corporate / Cross cutting	250	250	240	180
Health and Adult Services	180	180	215	205
Business & Environmental Services	90	90	85	100
Central Services	100	110	165	185
Children & Young People's Services	190	212	214	240
Computer Audit	70	70	100	100
Procurement and Contract Audit	60	60	85	90
Pension Fund	50	50	50	50
Counter Fraud & Corruption	350	350	300	310
Information Governance	606	606	612	700
Other Chargeable Audit Work	110	112	136	158
TOTAL DAYS	**2056**	**2090**	**2202**	**2318**

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 March 2018

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 2017/18

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). An updated Code of Practice, applicable for 2017/18 was issued in April 2017.

2.3 In addition to considering required changes to the County Council's accounting policies for 2017/18, there are further changes which CIPFA have been consulting with local authorities which are in the pipeline for future years (2018/19 and beyond) to bring to the Committee's attention.

3.0 CHANGES IN ACCOUNTING POLICY FOR 2017/18

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 2017/18, therefore arise as a result of the updated IFRS based *Code of Practice on Local Authority Accounting* issued by CIPFA in April 2017.

3.3 Further updates to the 2017/18 *Code of Practice* have also been issued to reflect developments regarding statutory accounting and disclosure requirements which have taken place since its publication in April 2017.

3.4 Changes reflected in the 2017/18 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 There are no changes to the *Code of Practice* that impact on the County Council's 2017/18 Accounting Policies. However, the Accounting Policies ultimately determined for 2017/18 will be reported to Members on 26 July 2018 as part of the report accompanying the SOFA for 2017/18. At this stage, therefore, Members are asked to note the current position.

3.6 It was anticipated that CIPFA would instruct local authorities to adopt the requirements of the Highways Network Assets Code of Practice in advance of the 2017/18 accounts. However, after further consultation CIPFA announced in November 2016 that it would indefinitely postpone the implementation of the Code, on the basis that the cost of implementation outweighed the benefits of adoption. CIPFA have not announced any further plans to introduce the code in the near future.

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 2018/19 and provisional changes for future years beyond 2018/19, with the key potential changes set out in **Appendix A**.

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.

5.1 RECOMMENDATION

5.2 That Members:

(i) review the update on accounting policies for 2017/18 (**paragraph 3.5**).

(ii) note potential changes to the SOFA and accounting policies which are in the pipeline for future years (2018/19 onwards) (**paragraph 4.1** and **Appendix A**).

GARY FIELDING

Corporate Director – Strategic Resources

County Hall
Northallerton

1 March 2018

APPENDIX A

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 has consulted on and confirmed some of the proposed changes to the 2018/19 Code of Practice (to be issued in April 2018), and have also provided indications of further potential changes that are likely to be reflected in updates to the 2018/19 Code and beyond. Some of these key changes outlined below however have been reported to the Audit Committee in March 2017 as being in the pipeline.

2.0 Financial Instruments

2.1 CIPFA has announced that they are adopting IFRS 9 – Financial Instruments. This is a complex standard and will be introduced from 2018/19.

2.2 The introduction of IFRS 9 will have implications for the classification and measurement of financial assets.

2.3 This will result in new classifications of financial assets including Amortised Cost, Fair Value through Profit and Loss (FVPL) and Fair Value through Other Comprehensive Income (FVOCI) and the removal of the current classifications of Assets Held for Trading and Assets Held for Sale.

2.4 As the re-measurement of certain financial assets may result in accounting for losses and gains in a local authority's General Fund, the Ministry for Housing, Communities and Local Government has recently contacted S151 Officers asking for evidence to support a statutory override to the implementation of certain elements of IFRS 9.

2.5 The Corporate Director – Strategic Resources will closely monitor this situation and report to Members of the Audit Committee on any significant developments.

3.0 Revenue from Contracts with Customers

3.1 CIPFA is adopting IFRS 15 - Revenue from Contracts with Customers from 2018/19.

3.2 The CIPFA Code of Practice is clear that tax arising under regulation or legislation (including NNDR and Council Tax) does not fall under the scope of IFRS 15, which will mitigate the impact of the introduction of the standard on local authority's SOFA.

3.3 Local Authorities will need to ensure that they have explained all sources of income sufficiently, giving due consideration to materiality.

3.4 The County Council will need to consider IFRS 15 when preparing group accounts; consolidation adjustments may be required as accounting regulations that subsidiaries adhere to (FRS 102) may be different to that of IFRS 15 in terms of the timing and measurement of income.

4.0 Leases

4.1 CIPFA is adopting IFRS 16 – Leases from 2019/20.

4.2 It is anticipated that as a result of any changes relating to IFRS 16 the current definition of a finance lease would be extended to cover all leases, which will 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 Further changes as a result of adopting IFRS 16 relate to the measurement of liabilities from leases, PFI and service concession arrangements which include an element of annual indexation.

4.4 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 and reported on the County Council's balance sheet, which could potentially have prudential borrowing implications.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 March 2018
TREASURY MANAGEMENT

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

1.1 To recommend to the County Council an updated Annual Treasury Management Strategy for the financial year 2018/19 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 INTRODUCTION AND BACKGROUND

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

2.2 The second main function of the treasury management service is the funding of the County Council's capital plans. These capital plans provide a guide to the borrowing need of the County Council, essentially the longer term cash flow planning, to ensure that the County Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, any debt previously drawn may be restructured to meet County Council risk or cost objectives.

2.3 CIPFA defines treasury management as:
"The management of the local authority's borrowing, 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."

2.4 'Investments' in the definition above covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework under the Code.

3.0 TREASURY MANAGEMENT POLICY STATEMENT

3.1 The CIPFA Code of Practice on Treasury Management (as updated in 2017) requires the County Council to approve:

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

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

c) a **Capital Strategy** setting out a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives

3.2 The TMPS referred to in **paragraph 3.1 (a)** is attached as **Appendix A** and reflects only very minor changes for 2018/19.

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 2018/19

4.1 TREASURY MANAGEMENT STRATEGY

4.2 The County Council's "Authorised Limit for External Debt" is £348.9m for 2018/19, which is the maximum that can be borrowed in the year. The County Council's "Operational Boundary" is £328.9m for 2018/19, which is the maximum amount that is expected to be borrowed. Prudential indicators are a number of key indicators, which are set to ensure that the County Council operates its activities within well-defined limits.

Long Term Debt Position

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

4.4 The long term debt position of the County Council is essentially related to the level of capital expenditure undertaken. The forecast for the County Council's long term outstanding debt is demonstrated by the following table:-

@ **Year End**	**Debt Outstanding £m**
2015 actual	319.8
2016 actual	316.6
2017 actual	309.0
2018 forecast	287.5
2019 forecast	285.1
2020 forecast	263.1
2021 forecast	236.0

The figures above exclude other long term liabilities such as PFI contracts and finance leases which are regarded as debt outstanding for Prudential Indicator purposes.

4.5 The current Long Term debt position reflects the policy of internally financing capital expenditure from cash balances which, at some stage, will have to be reversed. Furthermore, the forecasts for 31 March 2017 and subsequent years and the Prudential Indicators relating to external debt are based on an assumption that the annual capital borrowing requirements for the years 2017/18 to 2020/21 being taken externally each year. 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.

4.6 The revenue cost of servicing the debt which impacts directly on the Revenue Budget / Medium Term Financial Strategy will be about £22.8m in 2018/19; this consists of interest payments of £10.7m and a revenue provision for debt repayment of £12.1m.

4.7 The debt outstanding levels of the County Council are based on the current Capital Plan. 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 running down investments, and

(e) external debt could also be prematurely repaid from internal cash balances and also running down investments.

4.8 **MINIMUM REVENUE PROVISION (MRP) POLICY**

The County Council is required to determine the amount of MRP it considers prudent for each financial year. The MRP Policy is based on the Government's statutory guidance and following review of this policy. The MRP Policy for 2018/19 has been extended to incorporate 'Assets Acquired or Developed for Resale' and 'Investment Properties'.

4.9 **ANNUAL INVESTMENT STRATEGY**

Credit Rating Criteria

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

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

a) a system of scoring each organisation using the Link Asset Services – Treasury Solutions (Link) enhanced creditworthiness service. This service, revised 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; and

- 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.

All this information is then converted into a weighted credit score for each organisation and only those organisations with an appropriate score will fulfil the County Council's minimum credit criteria. The score is then converted into the end product of a colour code which is used to determine the maximum investment term for an organisation

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

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

- institutions will be removed or temporarily suspended from the Approved Lending List if there is significant concern about their financial standing or stability;

- investment exposure will be concentrated with higher rated institutions wherever possible.

4.12 It is, therefore, proposed that the lending criteria, above, be utilised for 2018/19. These criteria are set out in full in the Annual Treasury Management and Investment Strategy 2018/19 (Appendix B).

Debt Management Office Deposit Account

4.13 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 AA-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 of around 0.15% is below what could realistically be achieved elsewhere for similar short term investments.

4.14 This investment option is included in the County Council's current approved lending list with a maximum investment limit of £100m. The facility was not utilised for a number of years and no investments are anticipated in 2017/18. However, The DMO account will remain on the County Council's approved Lending List as a precaution.

Approved Lending List

4.15 The current Approved Lending List is attached to this report as **Schedule C** to the Annual Treasury Management and Investment Strategy 2018/19 (**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.

The changes reflected in the latest Approved Lending List compared with that submitted for 2017/18 in February 2017 are listed below. Please note that the analysis below is between the version provided last year and the proposed list for 2018/19 – 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 2018/19

Organisation	**Reason**
Clydesdale Bank (Trading as the Yorkshire Bank)	No longer owned by National Bank of Australia and as a result do not meet credit worthiness criteria.
Nordea Bank Finland	Now wholly owned within Nordea Bank AB

(b) organisations who continue to be included on the 2018/19 Approved Lending List, but whose Maximum Investment Duration will remain as nil until Credit Ratings and market sentiment improve

Organisation	Reason
Deutsche Bank	Due to fall in Credit Ratings

(c) organisations added to the Approved Lending List during 2017/18

Organisation	Reason
None	

4.16 Local Authorities will continue to be included on the Approved Lending List for 2018/19, although suitable investment opportunities with them are limited. As a result of the way they are financed and their governance arrangements, Local Authorities are classed as having the highest credit rating.

Specified and Non Specified Investments

4.17 Utilising the assessment of credit quality, the criteria and investment limits for **specified investments** (a maximum of 365 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

4.18 The criteria f**or Non Specified Investments** (for periods of more than 365 days) are:

- investments over 1 year to a maximum of 5 years with institutions which have suitable credit score

- the maximum amount for all non-specified investments is £5m with any one institution

Following the review of Non Specified Investments referred to in **paragraph 4.21** below, the limits for Non-Specified investments have been reviewed, in consultation with the County Council's Treasury Management advisers, to ensure the duration and investment limits are appropriate for the investment types defined in **Schedule B** of **Appendix A.** In order to extend investments to Property Funds, the maximum duration of Non-Specified Investments has increased from 2 years to 5 years. In addition, the total investment limit for Non-Specified Investments has increased from £20m to £40m.

Additional Types of Investment

4.19 The County Council may use various financial instruments for the prudent management of its treasury balances. These financial instruments are detailed in the list of Specified and

Non Specified Investments at **Schedule B** of **Appendix A**. Deposits include a variety of products including fixed term deposits, Certificates of Deposit, Money Market Funds, Gilts, Bonds and Collateralised Deposits.

4.20 Alternative investment options are continually monitored and reviewed. Treasury Management staff continue to investigate further investments options to assess whether they meet the Council's investment priorities and criteria list.

4.21 As part of the monitoring and review of investment options, Property Funds have been identified as a potential instrument for investment following discussions with the County Councils Treasury Management consultants. Property Funds are pooled investment vehicles investing in commercial property. As a result, Property Funds have been added to the schedule of Non Specified Investments at Schedule B of Appendix A. Appropriate due diligence will be undertaken before an investment of this type is undertaken. The County Council will also consult with all external members for whom it provides a Treasury Management service prior to any investment.

5.0 CAPITAL STRATEGY

5.1 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and Prudential Code. The revised Codes require all local authorities to produce a Capital Strategy. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and takes account of stewardship, value for money, prudence, sustainability and affordability. As a result, a Capital Strategy is now included as **Appendix C** to this report.

5.2 The current economic environment is resulting in low returns on traditional treasury management investments. As a result, the County Council is currently considering an alternative strategic approach to managing cash resources through alternative, non-core investments. It is anticipated that alternative investments will predominantly be considered capital expenditure and as such will included in the Capital Plan.

5.3 The Capital Strategy provides a projection of how capital expenditure plans, including alternative investment plans, impact on capital borrowing and repayment plans.

5.4 The County Council has established a Commercial Investment Board to identify, review and recommend alternative investment opportunities. An overall maximum exposure of £50m for alternative investments was approved by Executive in August 2017.

5.5 The only non-core investments currently included in the Capital Plan are the loans provided to its subsidiary companies. Loans totalling £7.96m have been advanced to subsidiary companies.

5.6 While the Commercial Investment Board is considering a range of investment options, no further non-core investments are currently included in the Capital Plan.

6.0 **TRAINING**

6.1 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 Link Asset Services – Treasury Solutions in September 2013.

6.2 The training needs of the County 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.

7.0 TREASURY MANAGEMENT CONSULTANTS

7.1 The County Council uses Link Asset Services - Treasury solutions (previously Capita Asset Services) as its external treasury management advisors.

7.2 The County Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The County Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

8.0 REVIEW BY AUDIT COMMITTEE

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

8.2 As the County Council is required to approve an up to date Annual Treasury Management and Investment Strategy before the start of the new financial year, it is therefore not realistic for the Audit Committee to review this document in advance of its submission to Executive and the subsequent consideration by County Council on 21 February 2018.

8.3 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 2018/19 (**Appendix B**) is submitted for review by the Audit Committee on 1 March 2018. Any resulting proposals for change would then be considered at a subsequent meeting of the Executive. If any such proposals were accepted and required a change to the (by then) recently approved Strategy document the Executive would submit a revised document to the County Council at its meeting on 16 May 2018.

9.0 ARRANGEMENTS FOR MONITORING / REPORTING TO MEMBERS

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

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

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

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

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

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

f) reports on proposed changes to the County Council's Treasury Management activities are submitted as required to the **Audit Committee** for consideration and comment.

10.0 RECOMMENDATIONS

10.1 That Members recommend to the County Council

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

b) the Annual Treasury Management and Investment Strategy for 2018/19 as detailed in **Appendix B** and in particular;

(i) an authorised limit for external debt of £348.9m in 2018/19;

(ii) an operational boundary for external debt of £328.9m in 2018/19;

(iii) the Prudential and Treasury Indicators

(iv) a limit of £40m of the total cash sums available for investment (both in house and externally managed) to be invested in Non Specified Investments over 365 days;

(v) a 10% cap on capital financing costs as a proportion of the annual Net Revenue Budget;

(vi) a Minimum Revenue Provision (MRP) policy for debt repayment to be charged to Revenue in 2018/19

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

c) the Capital Strategy as attached as **Appendix C**

d) that the Audit Committee be invited to review **Appendices A, B and C** and submit any proposals to the Executive for consideration at the earliest opportunity.

APPENDIX A

NORTH YORKSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1.0 BACKGROUND

1.1 The County Council has adopted the **CIPFA Code of Practice on Treasury Management in the Public Services** as updated in 2017. This Code sets out a framework of operating procedures to reduce treasury risk and improve understanding and accountability regarding the Treasury position of the County Council.

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

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

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

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

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

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

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

1.3 The **CIPFA Prudential Code for Capital Finance in Local Authorities** (updated in 2017) 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**, an annual **Minimum Revenue Provision (MRP)** policy statement and a **Capital Strategy** with an associated requirement that each is monitored on a regular basis with a provision to report as necessary both in-year and at the financial year end.

1.4 This current Treasury Management Policy Statement (TMPS) was approved by County Council on 21 February 2018.

2.0 TREASURY MANAGEMENT POLICY STATEMENT (TMPS)

2.1 Based on the requirements detailed above a TMPS stating the policies and objectives of the treasury management activities of the County Council is set out below.

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

(a) the management of the County Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks;

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

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

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

3.0 TREASURY MANAGEMENT PRACTICES (TMPs)

3.1 The CIPFA Code of Practice on Treasury Management requires a framework of Treasury Management Practices (TMPs) which:

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

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

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

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

TMP 1 Risk management

TMP 2 Performance measurement

TMP 3 Decision-making and analysis

TMP 4 Approved instruments, methods and techniques

TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements

TMP 6 Reporting requirements and management information arrangements

TMP 7 Budgeting, accounting and audit arrangements

TMP 8 Cash and cash flow management

TMP 9 Money Laundering

TMP 10 Training and qualifications

TMP 11 Use of external service providers

TMP 12 Corporate governance

4.0 PRUDENTIAL INDICATORS

4.1 The Local Government Act 2003 underpins the Capital Finance system introduced on 1 April 2004 and requires the County Council to "have regard to" the **CIPFA Prudential Code for Capital Finance in Local Authorities**. This Code which was last updated in December 2017, requires the County Council to set a range of Prudential Indicators for the next three years

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

(b) before the start of the financial year;

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

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

4.3 The required Prudential Indicators are as follows

- Capital Expenditure - Actual and Forecasts
- estimated ratio of capital financing costs to the Net Revenue Budget
- Capital Financing Requirement
- Gross Debt and the Capital Financing Requirement
- authorised Limit for External Debt
- operational Boundary for External Debt
- Actual External Debt
- Interest Rate Exposures
- Maturity Structure of Borrowing
- Total Principal Sums Invested for periods longer than 365 days

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

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

(a) to cap Capital Financing costs to 10% of the net annual revenue budget; and

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

5.0 ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY

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

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

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

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

- treasury limits in force which will limit the treasury risk and activities
- 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
- Capital Strategy

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

6.0 REVIEW OF THIS POLICY STATEMENT

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

Approved by County Council 21 February 2018

APPENDIX B

NORTH YORKSHIRE COUNTY COUNCIL

ANNUAL TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2018/19

1.0 INTRODUCTION

1.1 Treasury Management is defined as

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

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

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

1.4 This Strategy document for 2018/19 therefore covers the following

- treasury limits in force which will limit the treasury risk and activities of the County Council (**Section 2**)
- Prudential indicators (**Section 3**)
- current treasury position (**Section 4**)
- borrowing requirement and borrowing limits (**Section 5**)
- borrowing policy (**Section 6**)
- prospects for interest rates (**Section 7**)
- borrowing strategy (**Section 8**)
- capping of capital financing costs (**Section 9**)
- review of long term debt and debt rescheduling (**Section 10**)
- minimum revenue provision policy (**Section 11**)

- annual investment strategy (**Section 12**)
- other treasury management issues (**Section 13**)
- arrangements for monitoring/reporting to Members (**Section 14**)
- specified investments (**Schedule A**)
- non-specified investments (**Schedule B**)
- approved lending list (**Schedule C**)
- approved countries for investments (**Schedule D**)

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

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

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

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

1.6 These issues are addressed and the necessary assurances provided by the Section 151 officer (the Corporate Director – Strategic Resources) in the 2018/19 Revenue Budget and Medium Term Financial Strategy report considered separately by the Executive on 30 January 2018 and approved by the County Council on 21 February 2018.

1.7 The Annual Treasury Management and Investment Strategy was approved by the County Council on 21 February 2018.

2.0 TREASURY LIMITS FOR 2018/19 TO 2020/21

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

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

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 2018/19 TO 2020/21

3.1 A separate Report incorporating an updated set of Prudential Indicators for the three year period to 31 March 2020, as required by the CIPFA Prudential Code for Capital Finance in Local Authorities, was also approved by the County Council on 21 February 2018.

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 2018/19.

3.3 Full details of the Prudential Indicators listed below are contained in the separate **Revision of Prudential Indicators** report.

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

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

	£m
2016/17 actual	110.1
2017/18 estimate	118.8
2018/19 estimate	117.3
2019/20 estimate	75.6
2020/21 estimate	76.6

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

(i) formally required indicator net of interest earned

2016/17 actual	7.5%
2017/18 probable	7.0%
2018/19 estimate	6.5%
2019/20 estimate	6.1%
2020/21 estimate	4.7%

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

2016/17 actual	7.7%
2017/18 probable	7.2%
2018/19 estimate	6.8%
2019/20 estimate	6.5%
2020/21 estimate	5.2%

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

	Borrowing £m	Other Long Term Liabilities £m	Total £m
31 March 2017 actual	322.0	5.3	327.3
31 March 2018 probable	307.0	5.1	312.1
31 March 2019 estimate	295.3	4.7	300.0
31 March 2020 estimate	283.4	4.4	287.8
31 March 2021 estimate	272.3	4.0	276.3

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

In order to ensure that over the medium term debt will only be for Capital purposes, the County Council should ensure that debt does not, except in the short term, exceed the total of the Capital Financing Requirement in the preceding year, plus the estimate of any additional capital financing requirement for 2018/19 and the next two financial years.

The Corporate Director – Strategic Resources confirms that the County Council had no difficulty in meeting this requirement up to 2016/17 nor are any difficulties envisaged for the current or future financial years covered by this PI update to 2020/21. For subsequent years, however, there is the potential that the County Council may not be able to comply with this requirement as a result of the potential for the annual Minimum Revenue Provision (MRP) reducing the Capital Financing Requirement below gross debt. This potential situation will be monitored closely.

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

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing Limit £m
2017/18	374.9	5.1	380.0
2018/19	344.2	4.7	348.9
2019/20	352.7	4.4	357.1
2020/21	362.8	4.0	366.8

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

	External Borrowing £m	Other Long Term Liabilities £m	Total Borrowing £m
2017/18	354.9	5.1	360.0
2018/19	324.2	4.7	328.9
2019/20	332.7	4.4	337.1
2020/21	342.8	4.0	346.8

(g) **Actual External Debt**

	Borrowing £m	Other Long Term Liabilities £m	Total £m
at 31 March 2017 actual	309.0	5.3	314.3
at 31 March 2018 probable	287.5	5.1	292.6
at 31 March 2019 estimate	285.1	4.7	289.8
at 31 March 2020 estimate	263.1	4.4	267.5
at 31 March 2021 estimate	236.0	4.0	240.0

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

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

(i) **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

(j) **Total principal sums invested for periods longer than 365 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 £40m of 'core cash funds' available for investment can be held in aggregate in Non-Specified Investments over 365 days.

4.0 **CURRENT TREASURY POSITION**

4.1 The County Council's treasury portfolio position at 31 March 2017 consisted of:

Item	Principal £m	Average Rate at 31 March 2017 %
Debt Outstanding		
Fixed Rate funding		
PWLB	289.0	4.42
Variable Rate funding	0.0	0.00
Market LOBO's	20.0	3.95
Total Debt Outstanding	309.0	4.39
Investments		
Managed in house	308.1	0.58
Net Borrowing	**0.9**	

5.0 **BORROWING REQUIREMENT AND BORROWING LIMITS**

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

Year	Basis	£m	Comment
2016/17	actual	0	No actual external borrowing was undertaken in 2016/17. The total requirement was £13.0m
2017/18	requirement	25.9	Includes £13.0m capital borrowing requirement rolled over from 2016/17
2018/19	estimate	-9.3	The much higher figure for 2020/21 includes 'refinancing' significant PWLB loan repayments in that years.
2019/20	estimate	11.0	
2020/21	estimate	32.1	

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

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

5.5 **The 2018/19 Limits are as follows:**

	£m
Operational Boundary for external debt	328.9
+ provision to cover unusual cash movements during the year	20.0
= Authorised Limit for 2018/19	**348.9**

5.6 All the debt outstanding estimates and the Prudential Indicators relating to external debt are based on annual capital borrowing requirements being taken externally and therefore increasing debt outstanding levels. 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).

6.0 **BORROWING POLICY**

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

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

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

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

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

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

6.7 Depending on the relationship between short term variable interest rates and the fixed term PWLB or LOBO rates for longer periods, some capital expenditure may be financed by short term borrowing from either the County Council's revenue cash balances or outside sources.

Policy on borrowing in advance of need

6.8 The Prudential Code allows external 'borrowing for capital purposes' in advance of need within the constraints of relevant approved Prudential Indicators. Taking estimated capital borrowing requirements up to 31 March 2021 any time after 1 April 2018 is allowable under the Prudential Code. There are risks, however, in such borrowing in advance of need and the County Council has not taken any such borrowing to date and there are no current plans to do so. Furthermore the County Council will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

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

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

6.10 Any future consideration of whether borrowing will be undertaken in advance of need the County Council will:

- ensure that there is a clear link between the Capital Plan and maturity of the existing debt portfolio which supports the need to take funding in advance of need

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered

- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow

- consider the merits and demerits of alternative forms of funding

- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use

- consider the impact of borrowing in advance (until required to finance capital expenditure) on temporarily increasing investment cash balances and the consequent increase in exposure to counter party risk and other risks, and the level of such risks given the controls in place to minimise them.

7.0 PROSPECTS FOR INTEREST RATES

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

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

(a) The UK Economy

- After the UK surprised with strong economic growth in 2016, growth in 2017 has been disappointingly weak. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the EU referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power. However, more recently there have been encouraging statistics from the manufacturing sector, which is seeing strong growth, particularly as a result of increased demand for exports.

- The Bank of England Monetary Policy Committee (MPC) in September 2017 switched to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise soon following revised inflation forecasts. The focus of the Bank of England was on an emerging view that with unemployment having already fallen to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of automation and globalisation.

- At Its 2 November meeting, the MPC delivered a 0.25% increase in Bank Rate. It also gave forward guidance that they expected to increase Bank Rate only twice more in the next three years to reach 1.0% by 2020.

- However, some forecasters are flagging up that they expect growth to accelerate significantly towards the end of 2017 and then into 2018. This view is based primarily on the coming fall in inflation, (as the effect of the effective devaluation of sterling after the EU referendum drops out of the CPI statistics), which will bring to an end the negative impact on consumer spending power. If this scenario was to materialise, then the MPC would be likely to accelerate its pace of increases in Bank Rate during 2018 and onwards.

- One key area of risk to the economy is that consumers may have become used to cheap rates since 2008 for borrowing, especially for mortgages. It is a major concern that some consumers may have over extended their borrowing and have become complacent about interest rates going up. This is why forward guidance from the Bank of England continues to emphasise slow and gradual increases in Bank Rate in the coming years. However, consumer borrowing is a particularly vulnerable area in terms of the Monetary Policy Committee getting the pace and strength of Bank Rate increases right - without causing a sudden shock to consumer demand, confidence and thereby to the pace of economic growth.

- Moreover, while there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is difficult to predict with any certainty how the economy will perform over the next two to three years.

(b) Global Economy

- **Global Outlook**. World growth looks to be on an encouraging trend of stronger performance, rising earnings and falling levels of unemployment - inflation prospects are also generally muted. This has led to speculation that there appears to have been a fundamental shift in the correlation between levels of unemployment and inflation, which could be a result of a combination of a shift towards flexible working, self-employment, a reduction in union power and increasing globalisation. In addition, technology is probably also exerting downward pressure on wage rates and this is likely to grow with an accelerating movement towards automation.

- **Central Bank Policy.** Looking back on nearly ten years since the financial crash of 2008 when liquidity suddenly dried up in financial markets, it can be assessed that central banks' monetary policy measures to counter the sharp world recession were successful. The key monetary policy measures Central Banks used in reaction to the 2008 financial crash were a combination of lowering central interest rates and Quantitative Easing (QE). The key issue now is that the period of stimulating economic recovery and warding off the threat of deflation is coming to an end and will now shift to reversing those measures i.e. by raising central rates and reducing central banks' holdings of government and other debt. These measures are now required in order to stop the trend of an on-going reduction in spare capacity in the economy, and of unemployment falling to such low levels that the re-emergence of inflation is viewed as a major risk. It is, therefore, crucial that central banks do not cause shocks to market expectations that could destabilise financial markets. The potential for central banks to get this timing and strength of action wrong are now key risks. There is also a potential key question over whether economic growth has become too dependent on strong central bank stimulus and whether it will maintain its momentum against a backdrop of rising interest rates and the reversal of QE.

- **European Union (EU).** Economic growth in the eurozone had been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a significant programme of QE. However, growth picked up in 2016 and has now gathered strength and momentum. However, despite providing monetary stimulus, inflation has not reached the 2% target and is unlikely to start rising until possibly 2019. The ECB has, however, announced that it will slow down its monthly QE purchases of debt from January 2018 and continue to at least September 2018.

- **USA**. Growth in the American economy was notably erratic and volatile in 2015 and 2016 and 2017 has followed that path. Unemployment in the US has fallen to the lowest level for many years, reaching 4.1%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual increase in interest rates throughout 2016 and 2017, with further increases in 2018 expected. At its September meeting, the Fed said it would start in October to gradually unwind Quantitative Easing (QE) position.

- **Asia.** Economic growth in China has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, as well as to address the level of non-performing loans in the banking and credit systems. Japan has been struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

(c) Link Asset Services Forward View

- Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Geopolitical developments, especially in the EU, could also have a major impact. Forecasts for average investment earnings beyond the three-year time horizon will be heavily dependent on economic and political developments

- The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. It has long been expected that at some point, there would be a start to a switch back from bonds to equities after a historic long term trend over about the last twenty five years of falling bond yields. The action of central banks since the financial crash of 2008, in implementing substantial quantitative easing purchases of bonds, added further impetus to this downward trend in bond yields and rising prices of bonds. Quantitative Easing has also directly led to a rise in equity values as investors searched for higher returns and took on riskier assets. The sharp rise in bond yields since the US Presidential election in November 2016 has called into question whether the previous trend may go into reverse, especially now the Fed. has taken the lead in reversing monetary policy by starting, in October 2017, a policy of not fully reinvesting proceeds from bonds that it holds when they mature.

- Until 2015, monetary policy was focused on providing stimulus to economic growth but has since started to refocus on countering the threat of rising inflationary pressures as stronger economic growth becomes more firmly established.

- From time to time, gilt yields – and therefore PWLB rates - can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis and emerging market developments. Such volatility could occur at any time during the forecast period.

- The overall balance of risks to economic recovery in the UK is to the downside, particularly in view of the current uncertainty over the final terms of Brexit and the timetable for its implementation.

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

  → Bank of England monetary policy takes action too quickly over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate;
  → Geopolitical risks, especially North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows;
  → A resurgence of the Eurozone sovereign debt crisis;
  → Weak capitalisation of some European banks;
  → Rising global protectionism;
  → A slowdown in progress on EU integration and centralisation of EU policy. This, in turn, impact the Euro, EU financial policy and financial markets; and
  → A sharp Chinese downturn and its impact on emerging market countries.

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

  → The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflation pressures to build up too strongly within the UK economy;
  → UK inflation returning to sustained significantly higher levels causing an increase in the inflation premium inherent to gilt yields; and
  → The Fed causing a sudden shock in financial markets through misjudging the pace and strength of increases in its Fed. Funds Rate and in the pace and strength of reversal of Quantitative Easing.

7.3 The County Council has appointed Link Asset Services – Treasury Solutions 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				Short Term Investment Rates	
		5 year	10 year	25 year	50 year	3 Months	1 Year
	%	%	%	%	%	%	%
Mar 2018	0.50	1.60	2.20	2.90	2.60	0.40	0.80
June 2018	0.50	1.60	2.30	3.00	2.70	0.40	0.80
Sept 2018	0.50	1.70	2.40	3.00	2.80	0.40	0.90
Dec 2018	0.75	1.80	2.40	3.10	2.90	0.60	1.00
Mar 2019	0.75	1.80	2.50	3.10	2.90	0.60	1.00
June 2019	0.75	1.90	2.60	3.20	3.00	0.60	1.10
Sept 2019	0.75	1.90	2.60	3.20	3.00	0.70	1.10
Dec 2019	1.00	2.00	2.70	3.30	3.10	0.90	1.30
Mar 2020	1.00	2.10	2.70	3.40	3.20	0.90	1.30
June 2020	1.00	2.10	2.80	3.50	3.30	1.00	1.40
Sept 2020	1.25	2.20	2.90	3.50	3.30	1.20	1.50
Dec 2020	1.25	2.30	2.90	3.60	3.40	1.20	1.50
Mar 2021	1.25	2.30	3.00	3.60	3.40	1.20	1.60

7.4 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 2018/19 but to be on a gently rising trend over the next few years;

- Borrowing interest rates increased sharply after the result of the general election in June and then also after the September MPC meeting when financial markets reacted by accelerating their expectations for the timing of Bank Rate increases. Since then, borrowing rates have eased back again somewhat. Otherwise, there has been little general trend in rates during the current financial year. 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 the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt;

- There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue costloss – the difference between borrowing costs and investment returns.

8.0 BORROWING STRATEGY 2018/19

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 2018/19. Consideration will therefore be given to the following:

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

(b) based on analysis, the cheapest borrowing will be internal borrowing achieved by continuing to run down cash balances and foregoing interest earned at historically low rates . 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 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) 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, as a result, 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 forecasts, suitable trigger rates for considering new fixed rate PWLB or equivalent money market borrowing will be set. 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.

External -v- internal borrowing

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

(a) a significant level of investments (cash balances – core cash plus cash flow generated)

(b) internally funded capital expenditure.

8.5 Such internal borrowing stood at £13.0m at 31 March 2017, principally as a result of funding company loans from internal, rather than external borrowing, and not taking up any new debt for the 2011/12, 2012/13, 2013/14, 2014/15, 2015/16 and 2016/17 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.

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

8.7 This internal capital borrowing option is possible because of the County Council's cash balance with the daily average being £320.7m in 2016/17. 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.

8.8 As 2018/19 is expected to continue as a year of low bank interest rates, this extends the current opportunity for the County Council to continue with the current internal borrowing strategy.

8.9 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.

8.10 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.

8.11 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 2018/19 must be weighed against the loss of longer term interest rate stability. There is the potential, however, 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.

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

8.13 **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 together with achieving short term savings and mitigating the credit risk incurred by holding investments in the market. However this policy will be carefully reviewed and monitored on an on-going basis.**

Overall Approach to Borrowing in 2018/19

8.14 Given the market conditions, economic background and interest rate forecasts, caution will be paramount within the County Council's 2018/19 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

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

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

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

9.0 CAPPING OF CAPITAL FINANCING COSTS

9.1 In order to regulate the impact of Prudential Borrowing on the net revenue budget, 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 2018/19 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 have the option to review the cap in the context of its explicit impact on the Revenue Budget/Medium Term Financial Strategy.

10.0 REVIEW OF LONG TERM DEBT AND DEBT RESCHEDULING

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

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

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

10.4 The introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt, which was compounded in October 2010 by a considerable further widening of the difference between new borrowing and repayment rates, has meant that PWLB to PWLB debt restructuring is now much less attractive than it was before both of these events. In particular, consideration has to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds if using replacement PWLB refinancing.

10.5 As short term borrowing rates are expected to be considerably cheaper than longer term rates throughout 2018/19, 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 identify 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, and;

(c) in order to enhance the balance of the long term portfolio (ie amend the maturity profile and/or the balance of volatility).

11.0 MINIMUM REVENUE PROVISION (MRP) POLICY 2018/19

11.1 The statutory requirement for local authorities to charge the Revenue Account each year with a specific sum for debt repayment was replaced in February 2008 with more flexible statutory guidance which came into effect from 2008/09.

11.2 The new, and simpler, statutory duty (Statutory Instrument 2008) is that a local authority shall determine for the financial year an amount of minimum revenue provision (MRP) that it considers to be prudent. This replaces the previous prescriptive requirement that the minimum sum should be 4% of the Capital Financing Requirement (CFR); the CFR consists of external debt plus capital expenditure financed by borrowing from internal sources (surplus cash balances).

11.3 To support the statutory duty the Government also issued fresh guidance in February 2008 which requires that a Statement on the County Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate. The County Council are therefore legally obliged to have regard to this MRP guidance in the same way as applies to other statutory guidance such as the CIPFA Prudential Code, the CIPFA Treasury Management Code and the DCLG guidance on Investments.

11.4 The MRP guidance offers four options under which MRP might be made, with an overriding recommendation that the County Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the asset created by the capital expenditure is estimated to provide benefits (ie estimated useful life of the asset being financed). The previous system of 4% MRP did not necessarily provide that link.

11.5 The guidance also requires an annual review of MRP policy being undertaken and it is appropriate that this is done as part of this Annual Treasury Management Strategy.

11.6 The move to International Financial Reporting Standards (IFRS) from 2010/11 involves Private Finance Initiative (PFI) contracts and some leases (being reclassified as finance leases instead of operating leases) coming onto Local Authority Balance Sheets as long term liabilities. This accounting treatment impacts on the CFR, with the result that an annual MRP provision is required for PFI contracts and certain leases. To ensure that this change has no overall financial impact on local authority budgets, the Government updated their "Statutory MRP Guidance" with effect from 31 March 2010. This updated Guidance allows MRP to be equivalent to the existing lease rental payments and "capital repayment element" of annual payments to PFI Operators and the implications of this are reflected in the County Council's MRP policy for 2017/18.

11.7 The 'Statutory MRP Guidance' was again updated from 1 April 2012 but the amendments relate only to those authorities with responsibility for housing. MRP guidance remained the same for all other authorities.

11.8 The County Council's MRP policy is based on the Government's Statutory Guidance and following a review of this policy, no changes are proposed at this time. However, a further review of the existing assumptions for prudent provision incorporated into the County Council's MRP Policy will be undertaken as part of the 2018/19 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 2018/19 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 County Council, which is not in all cases capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure, and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

The estimated life of relevant assets will be assessed each year based on types of capital expenditure incurred but in general will be 25 years for buildings, 50 years for land, and 5 to 7 years for vehicles, plant and equipment. To the extent that the expenditure does not create a physical asset (eg capital grants and loans), and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the County Council.

In the case of long term debtors from loans, the amounts paid out are classed as capital expenditure for capital financing purposes. The expenditure is therefore included in the calculation of the County Council's Capital Financing Requirement. When the County Council receives the repayment of an amount loaned, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the eventual receipt is expected to fall short of the amount expended).

Where expenditure is incurred to acquire and/or develop properties for resale, the Capital Financing Requirement will increase by the amount expended. Where the County Council will subsequently recoup the amount expended via the sale of an asset, the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the fair value of the properties falls below the amount expended).

Where expenditure is incurred to acquire properties meeting the accounting definition of investment properties, the Capital Financing Requirement will increase by the amount expended. Where the Council will subsequently recoup the amount expended (e.g. via the sale of an asset), the income will be classified as a capital receipt. Where the capital receipts will be applied to reduce the Capital Financing Requirement, there will be no revenue provision made for the repayment of the debt liability (i.e. unless the fair value of the properties falls below the amount expended).

This approach also allows the County Council to defer the introduction of an MRP charge for new capital projects/land purchases until the year after the new asset becomes operational rather than in the year borrowing is required to finance the capital spending. This approach is beneficial for projects that take more than one year to complete and is therefore included as part of the MRP policy.

(d) for **"on balance sheet" PFI schemes**, MRP will be equivalent to the "capital repayment element" of the annual service charge payable to the PFI Operator and for **finance leases**, MRP will be equivalent to the annual rental payable under the lease agreement.

11.9 Therefore the County Council's total MRP provision will be the sum of (a) + (b) + (c) + (d) (as defined above) which is considered to satisfy the prudent provision requirement. Based on this policy, total MRP in 2018/19 will be about £12.1m (including PFI and finance leases).

12.0 ANNUAL INVESTMENT STRATEGY

Background

12.1 Under the Local Government Act 2003 the County Council is required to have regard to Government Guidance in respect of the investment of its cash funds. This Guidance was revised with effect from 1 April 2010. The Guidance leaves local authorities free to make their own investment decisions, subject to the fundamental requirement of an Annual Investment Strategy being approved by the County Council before the start of the financial year.

12.2 This Annual Investment Strategy must define the investments the County Council has approved for prudent management of its cash balances during the financial year under the headings of **specified investments** and **non specified investments**.

12.3 This Annual Investment Strategy therefore sets out

- revisions to the Annual Investment Strategy;

- the Investment Policy;
- the policy regarding loans to companies in which the County Council has an interest;
- specified and non specified investments;
- Creditworthiness Policy - security of capital and the use of credit ratings;
- the Investment Strategy to be followed for 2018/19;
- investment reports to members;
- investment of money borrowed in advance of need;
- investment (and Treasury Management) training;

Revisions to the Annual Investment Strategy

12.4 In addition to this updated **Investment Strategy,** which requires approval before the start of the financial year, a revised Strategy will be submitted to County Council for consideration and approval under the following circumstances:

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

(b) any other significant development(s) that might impact on the County Council's investments and the existing strategy for managing those investments during 2018/19.

Investment Policy

12.5 The parameters of the Policy are as follows:

(a) the County Council will have regard to the Government's Guidance on Local Government Investments as revised with effect from 1 April 2010, and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes;

(b) the County Council's investment policy has two fundamental objectives;

- the security of capital (protecting the capital sum from loss); and then
- the liquidity of its investments (keeping the money readily available for expenditure when needed)

(c) the County Council will also aim to seek the highest return (yield) on its investments provided that proper levels of security and liquidity are achieved. The risk appetite of the County Council is low in order to give priority to the security of its investments;

(d) the borrowing of monies purely to invest or lend and make a return is unlawful and the County Council will not engage in such activity;

(e) investment instruments for use in the financial year listed under **specified** and **non-specified investment** categories; and

(f) counterparty limits will be set through the County Council's Treasury Management Practices Schedules.

Specified and non-specified Investments

12.6 Based on Government Guidance as updated from 1 April 2010.

(a) investment Instruments identified for use in the forthcoming financial year are listed in the Schedules attached to this Strategy under the **specified** and **non-specified** Investment categories;

(b) all **specified** Investments (see **Schedule A**) are defined by the Government as options with "relatively high security and high liquidity" requiring minimal reference in investment strategies. In this context, the County Council has defined Specified Investments as being sterling denominated, with maturities up to a maximum of 1 year meeting the minimum high credit quality;

(c) **Non-specified** investments (see **Schedule B**) attract a greater potential of risk. As a result, a maximum local limit of 20% of "core cash" funds available for investment has been set which can be held in aggregate in such investments;

(d) for both **specified** and **non-specified** investments, the attached Schedules indicate for each type of investment:-

- the investment category
- minimum credit criteria
- circumstances of use
- why use the investment and associated risks
- maximum % age of total investments
- maximum maturity period

(Non-Specified only)

(e) there are other instruments available as Specified and Non-Specified investments that are not currently included. Examples of such investments are:-

Specified Investments
- Commercial Paper
- Gilt funds and other Bond Funds
- Treasury Bills

Non-Specified Investments - Sovereign Bond issues
- Corporate Bonds
- Floating Rate notes
- Equities
- Open Ended Investment Companies
- Derivatives

A proposal to use any of these instruments would require detailed assessment and be subject to approval by Members as part of this Strategy. Under existing scrutiny arrangements, the County Council's Audit Committee will also look at any proposals to use the instruments referred to above.

Creditworthiness Policy – Security of Capital and the use of credit ratings

12.7 The financial markets have experienced a period of considerable turmoil since 2008 and as a result attention has been focused on credit standings of counterparties with whom the County Council can invest funds.

It is paramount that the County Council's money is managed in a way that balances risk with return, but with the overriding consideration being given to the security of the invested capital sum followed by the liquidity of the investment. The Approved Lending List will therefore reflect a prudent attitude towards organisations with whom funds may be deposited.

The rationale and purpose of distinguishing specified and non-specified investments is detailed 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 365 days.

It is, therefore, necessary to define what the County Council considers to be a "high" credit rating in order to maintain the security of the invested capital sum.

The methodology and its application in practice will, therefore, be as follows:-

(a) the County Council will rely on credit ratings published by the three credit rating agencies (Fitch, Moody's and Standard & Poor's) to establish the credit quality (ability to meet financial commitments) of counterparties (to whom the County Council lends) and investment schemes. Each agency has its own credit rating components to complete their rating assessments. These are as follows:

Fitch Ratings

Long Term - generally cover maturities of over five years and acts as a measure of the capacity to service and repay debt obligations punctually. Ratings range from AAA (highest credit quality) to D (indicating an entity has defaulted on all of its financial obligations)

Short Term - cover obligations which have an original maturity not exceeding one year and place greater emphasis on the liquidity necessary to meet financial commitments. The ratings range from F1+ (the highest credit quality) to D

(indicating an entity has defaulted on all of its financial obligations)

Moody's Ratings

Long Term	-	an opinion of the relative credit risk of obligations with an original maturity of one year or more. They reflect both the likelihood of a default on contractually promised payments and the expected financial loss suffered in the event of default. Ratings range from Aaa (highest quality, with minimal credit risk) to C (typically in default, with little prospect for recovery of principal or interest)
Short Term	-	an opinion of the likelihood of a default on contractually promised payments with an original maturity of 13 months or less. Ratings range from P-1 (a superior ability to repay short-term debt obligations) to P-3 (an acceptable ability to repay short-term obligations)

Standard & Poor's Ratings

Long Term	-	considers the likelihood of payment. Ratings range from AAA (best quality borrowers, reliable and stable) to D (has defaulted on obligations)
Short Term	-	generally assigned to those obligations considered short-term in the relevant market. Ratings range from A-1 (capacity to meet financial commitment is strong) to D (used upon the filing of a bankruptcy petition).

In addition, all three credit rating agencies produce a Sovereign Rating to select counterparties from only the most creditworthy countries. The ratings are the same as those used to measure long term credit.

(b) the County Council will review the "ratings watch" and "outlook" notices issued by all three credit rating agencies referred to above. An agency will issue a "watch", (notification of likely change), or "outlook", (notification of a possible longer term change), when it anticipates that a change to a credit rating may occur in the forthcoming 6 to 24 months. The "watch" or "outlook" could reflect either a positive (increase in credit rating), negative (decrease in credit rating) or developing (uncertain whether a rating may go up or down) outcome;

(c) no combination of ratings can be viewed as entirely fail safe and all credit ratings, watches and outlooks are monitored on a daily basis. This is achieved through the use of Link Asset Services creditworthiness service. This employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The credit ratings of counterparties are then supplemented with the following overlays;

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings

- sovereign ratings to select counterparties from only the most creditworthy countries

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the County Council to determine the duration for investments. The County Council will therefore use counterparties within the following durational bands:-

Colour	Maximum Investment Duration
Yellow	5 Years
Purple	2 Years
Orange	1 Year
Blue	1 Year (UK nationalised / semi nationalised banks only)
Red	6 Months
Green	100 Days
No Colour	No investment to be made

(d) given that a number of central banks/government have supported or are still supporting their banking industries in some way, the importance of the credit strength of the sovereign has become more important. The County Council will therefore also take into account the Sovereign Rating for the country in which an organisation is domiciled, for countries other than the UK (use of UK banks will not be limited). As a result, only an institution which is domiciled in a country with a minimum Sovereign Rating of AA- from Fitch or equivalent would be considered for inclusion on the County Council's Approved Lending List (subject to them meeting the criteria above). Organisations which are domiciled in a Country whose Sovereign Rating has fallen below the minimum criteria will be suspended, regardless of their own individual score/colour. The list of countries that currently qualify using this credit criteria are shown in **Schedule D**. This list will be amended should ratings change, in accordance with this policy;

(e) in order to reflect current market sentiment regarding the credit worthiness of an institution the County Council will also take into account current trends within the Credit Default Swap (CDS) Market. Since they are a traded instrument they reflect the market's current perception of an institution's credit quality, unlike credit ratings, which often focus on a longer term view. These trends will be monitored through the use of Link 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 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 Link 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 Link Asset Services however. In addition the County Council will also use market data and information available from other sources such as the financial press and other agencies and organisations;

(h) in addition, the County Council will set maximum investment limits for each organisation which also reflect that institution's credit worthiness – the higher the credit quality, the greater the investment limit. These limits also reflect UK Government involvement (i.e. Government ownership or being part of the UK Government guarantee of liquidity). These limits are as follows:-

Maximum Investment Limit	**Criteria**
£75m	UK "Nationalised / Part Nationalised" banks / UK banks with UK Central Government involvement
£20m to £60m	UK "Clearing Banks" and selected UK based Banks and Building Societies
£20m or £40m	High quality foreign banks

(i) should a score/colour awarded to a counterparty or investment scheme be amended during the year due to rating changes, market sentiment etc., the County Council will take the following action:-

- reduce or increase the maximum investment term for an organisation dependent on the revised score / colour awarded

- temporarily suspend the organisation from the Approved Lending List should their score fall outside boundary limits and not be awarded a colour

- seek to withdraw an investment as soon as possible, within the terms and conditions of the investment made, should an organisation be suspended from the Approved Lending List

- ensure all investments remain as liquid as possible, i.e. on instant access until sentiment improves.

(j) if a counterparty / investment scheme, not currently included on the Approved Lending List is subsequently upgraded, (resulting in a score which would fulfil the

County Council's minimum criteria), the Corporate Director – Strategic Resources has the delegated authority to include it on the County Council's Approved Lending List with immediate effect;

(k) a copy of the current Approved Lending List, showing maximum investment and time limits is attached at **Schedule C**. The Approved Lending List will be monitored on an ongoing daily basis and changes made as appropriate. Given current market conditions, there continues to be a very limited number of organisations which fulfil the criteria for non specified investments. This situation will be monitored on an ongoing basis with additional organisations added as appropriate with the approval of the Corporate Director – Strategic Resources.

The Investment Strategy to be followed for 2018/19

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

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

(b) ongoing discussions are held with the County Council's Treasury Management Advisor on whether to consider the appointment of an external fund manager(s) or continue investing in-house – any decision to appoint an external fund manager will be subject to Member approval;

(c) the County Council's cash balances consist of two basic elements. The first element is **cash flow derived** (debtors/creditors/timing of income compared to expenditure profile). The second, **core element**, relates to specific funds (reserves, provisions, balances, capital receipts, funds held on behalf of other organisations etc.);

(d) having given due consideration to the County Council's estimated level of funds and balances over the next three financial years, the need for liquidity and day to day cash flow requirements it is forecast that a maximum of £40m of the overall balances can be prudently committed to longer term investments (e.g. between 1 and 5 years);

(e) investments will accordingly be made with reference to this core element and the County Council's ongoing cash flow requirements (which may change over time) and the outlook for short term interest rates (i.e. rates for investments up to 12 months);

(f) the County Council currently two one non-specified investment over 365 days;

(g) bank rate increased to 0.50% in November and underpins investment returns. Investment returns are expected to rise gently over the next 3 years;

The County Council will, therefore, avoid locking into long term deals while investment rates continue to be at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within a 'low risk' parameter. 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.

(h) for its cash flow generated balances the County Council will seek to utilise 'business reserve accounts' (deposits with certain banks and building societies), 15, 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

12.9 Reporting to Members on investment matters will be as follows:

(a) in-year investment reports will be submitted to the Executive as part of the Quarterly Performance and Budget Monitoring reports;

(b) at the end of the financial year a comprehensive report on the County Council's investment activity will be submitted to the Executive as part of the Annual Treasury Management Outturn report;

(c) periodic meetings between the Corporate Director – Strategic Resources, the Corporate Affairs portfolio holder and the Chairman of the Audit Committee provide an opportunity to consider and discuss issues arising from the day to day management of Treasury Management activities.

Investment of Money Borrowed in Advance of Need

12.10 The Borrowing Policy covers the County Council's policy on Borrowing in Advance of Spending Needs.

Although the County Council has not borrowed in advance of need to date and has no current plans to do so in the immediate future, any such future borrowing would impact on investment levels for the period between borrowing and capital spending.

Any such investments would, therefore, be made within the constraints of the County Council's current Annual Investment Strategy, together with a maximum investment period related to when expenditure was expected to be incurred.

Treasury Management Training

12.11 The training needs of the County 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). Training for Members and officers will be provided as required. The training arrangements for officers will also be available to Members.

13.0 OTHER TREASURY MANAGEMENT ISSUES

Policy on the use of External Treasury Management Service Providers

13.1 The County Council uses Link Asset Services – Treasury Solutions as its external treasury management adviser. Link provide a source of contemporary information, advice and assistance over a wide range of Treasury Management areas but particularly in relation to investments and debt administration.

13.2 Whilst the County Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources, it fully accepts that responsibility for Treasury Management decisions remains with the authority at all times and will ensure that undue reliance is not placed upon advice of the external service provider.

13.3 Following a quotation exercise, Link 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 requires that a local authority includes details of the Treasury Management schemes of delegation and the role of the Section 151 officer in the Annual Treasury Management/Investment Strategy.

13.5 The key elements of delegation in relation to Treasury Management are set out in the following Financial Procedure Rules (FPR):-

(a) **14.1** The Council adopts CIPFA's "Treasury Management in the Public Services Code of Practice 2011" (as amended) as described in Section 5 of the Code, and will have regard to the associated guidance notes;

(b) **14.2** The County Council will create and maintain as the cornerstone for effective Treasury Management

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

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

(c) **14.3** The Executive and the full Council will receive reports on its Treasury Management policies, practices and activities including, as a minimum an Annual Treasury Management and Investment Strategy and associated report on Prudential Indicators in advance of the financial year;

(d) **14.4** The County Council delegates responsibility for the implementation and regular monitoring of its Treasury Management policies and practices to the Executive, and for the execution and administration of Treasury Management decisions to the Corporate Director – Strategic Resources (CD-SR), who will act in accordance with the Council's TMPs, as well as CIPFA's Standard of Professional Practice on Treasury Management;

(e) **14.5** The Executive will receive from the CD-SR a quarterly report on Treasury Management as part of the Quarterly Performance Monitoring report and an annual report on both Treasury Management and Prudential Indicators setting out full details of activities and performance during the preceding financial year;

(f) **14.6** The CD-SR will meet periodically with the portfolio holder for financial services, including assets, IT and procurement and such other Member of the Executive as the Executive shall decide to consider issues arising from the day to day Treasury Management activities;

(g) **14.7** The Audit Committee shall be responsible for ensuring effective scrutiny of the Treasury Management process;

(h) **14.8** The CD-SR shall periodically review the Treasury Management Policy Statement and associated documentation and report to the Executive on any necessary changes, and the Executive shall make recommendations accordingly to the County Council;

(i) **14.9** All money in the possession of the Council shall be under the control of the officer designated for the purposes of Section 151 of the Local Government Act 1972 (i.e. the Corporate Director - Strategic Resources).

13.6 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

Other Issues

13.7 The County Council continues to monitor potential PFI opportunities and assess other innovative methods of funding and the Corporate Director – Strategic Resources will report any developments to Executive at the first opportunity.

14.0 ARRANGEMENTS FOR MONITORING / REPORTING TO MEMBERS

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

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

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

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

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

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

(f) copies of the reports mentioned in (a) to (d) above are provided to the **Audit Committee** who are also consulted on any proposed changes to the County Council's Treasury Management activities.

GARY FIELDING
Corporate Director – Strategic Resources
30 January 2018

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2018/19 – SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of Use
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (Banks and Building Societies), including callable deposits with maturities less than 1 year	Organisations assessed as having "high credit quality" plus a minimum Sovereign rating of AA- for the country in which the organisation is domiciled	In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year		Fund Manager or In-house "buy and hold" after consultation with Treasury Management Advisor
Forward deals with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house
Money Market Funds i.e. collective investment scheme as defined in SI2004 No 534 (*These funds have no maturity date*)	Funds must be AAA rated	In-house After consultation with Treasury Management Advisor Limited to £20m
Gilts (with maturities of up to 1 year)	Government Backed	Fund Manager or In-house buy and hold after consultation with Treasury Management Advisor
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months (*Custodial arrangements required prior to purchase*)	Government Backed	After consultation with Treasury Management Advisor

NORTH YORKSHIRE COUNTY COUNCIL ANNUAL INVESTMENT STRATEGY 2018/19 – 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 Where non UK domiciled - 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	

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
Callable Deposits with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year	A) Enhanced Income – potentially higher return than using a term deposit with a similar maturity 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	Organisations assessed as having "high credit quality" Plus Where non UK domiciled - A minimum Sovereign rating of AA- for the country in which an organisation is domiciled	To be used in-house after consultation with Treasury Management Advisor	50% of agreed proportion (20%) of core cash balance that can be invested for more than 1 year (£12.5m)	£5m	2 years subject to potential future review with a maximum of no longer than 5 years
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

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
Bonds issued by a financial institution that is guaranteed by the UK Government (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 comparisons to gilts B) Interest rate risk; yield subject to movement during life off bond which could impact on price	AA or Government backed	In-house on a "buy and hold" basis after consultation with Treasury Management Advisor or use by Fund Managers	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 than 5 years
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	

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
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 Liquid - If traded, potential for capital appreciation B) Interest rate risk; yield subject to movement during life if the bond which could impact on price	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 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	
Property Funds	A) Attractive rates of return over period invested and in theory very liquid B) Period over which the investment will actually be held is not known at outset Credit risk as potential for greater deterioration of credit quality over a longer period	Organisations assessed as having "high credit quality"	To be used in-house after consultation with the Treasury Management Advisor	100% of agreed proportion (20%) of core cash funds that can be invested for more than 1 year (£20m)	£5m	5 years subject to potential future review with a maximum of 10 years

SCHEUDLE C

APPROVED LENDING LIST 2018/19

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	75.0	364 days	-	-
Natwest Bank	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	-	-
Bank of Scotland	GBR	75.0	6 months	-	-
Lloyds	GBR				
HSBC	GBR	30.0	364 days		
Goldman Sachs International Bank	GBR	40.0	6 months		
Standard Chartered 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	20.0	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	-	-
Credit Industriel et Commercial	FRA	20.0	6 months	-	-
BNP Paribas Fortis	FRA	20.0	6 months	-	-
Nordea Bank AB	SWE	20.0	364 days	-	-
Svenska Handelsbanken	SWE	40.0	364 days	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		20.0	364 days	5.0	2 years
Police / Fire Authorities		20.0	364 days	5.0	2 years
National Park Authorities		20.0	364 days	5.0	2 years
Other Deposit Takers					
Money Market Funds		20.0	364 days	5.0	2 years
UK Debt Management Account		100.0	364 days	5.0	2 years

* Based on data as 31 December 2017

SCHEDULE D

APPROVED COUNTRIES FOR INVESTMENTS

Based on the lowest available rating

Sovereign Rating	Country
AAA	Australia Canada Denmark Germany Luxemburg Netherlands Norway Singapore Sweden Switzerland
AA+	Finland Hong Kong USA
AA	Abu Dhabi (UAE) France UK
AA-	Belgium Qatar

APPENDIX C

NORTH YORKSHIRE COUNTY COUNCIL

CAPITAL STRATEGY

1.0 BACKGROUND

1.1 The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.2 The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

(a) Capital Expenditure (Section 2)

This section includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

(b) Capital Financing and Borrowing (Section 3)

This section provides a projection of the Council's capital financing requirement, how this impacted by capital expenditure decisions and how it will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt.

(d) Alternative Investments (Section 4)

This section provides an overview of those of the Council's current and proposed alternative investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these.

(e) Chief Financial Officer's statement (Section 5)

This section contains the Chief Financial Officer's views on the deliverability, affordability and risk associated with the capital strategy

2.0 CAPITAL EXPENDITURE

Capitalisation Policy

2.1 Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, roads and bridges, vehicles, plant and equipment etc.) that:

- Will be held for use in the delivery of services, for rental to others, investment or for administrative purposes; and

- Are of continuing benefit to the Council for a period extending beyond one financial year.

Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

2.2 There may be instances where expenditure does not meet this definition but would be treated as capital expenditure, including:

- Where the Council has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets; and

- Where statutory regulations require the Council to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules

2.3 The County Council operates de-minimis limits for capital expenditure. This means that items below these limits are charged to revenue rather than capital. The limits are currently as follows:

- **General Limit:** £20,000
- **Schools Limit:** £2,000

Governance

2.4 Capital expenditure is a necessary element in the development of the Council's services since it generates investment in new and improved assets. Capital expenditure is managed through the Capital Plan – a three year capital budget set annually as part of the budget setting process and reviewed quarterly as part of performance monitoring arrangements.

2.5 The County Council’s Financial Procedure Rules and the Asset Management Planning Framework provide a framework for the preparation and appraisal of schemes proposed for inclusion in the Capital Plan, appropriate authorisations for individual schemes to proceed and facilitate the overall management of the Capital Plan within defined resource parameters.

2.6 The Corporate Director –Strategic Resources shall determine the format of the Capital Plan and the timing of reports relating to it. The approved Capital Plan will comprise a number of individual schemes each of which will be quantified in overall project terms or on an annualised basis, as appropriate. Each Director shall prepare a draft Capital Plan for their service, in consultation with the Corporate Director – Strategic Resources, for submission to the Executive. The Capital Plan should identify planned expenditure, and funding, at proposed individual scheme or programme level.

2.7 The Corporate Director – Strategic Resources is responsible for preparing an overall Capital Plan for consideration by the Executive, and approval by the Council, the funding of which shall be compatible at all times with the Treasury Management Policy Statement of the Council. Individual schemes shall only be included in the Capital Plan following a project appraisal process undertaken in accordance with the guidelines defined in the Asset Management Planning Framework and in accordance with the Property Procedure Rules.

Capital Expenditure and Funding Plans

2.7 The County Councils capital expenditure plans as per the Capital Plan are set out in **Appendix B Section 3.**

2.8 When expenditure is classified as capital expenditure for capital financing purposes, this means that the Council is able to finance that expenditure from any of the following sources:

(a) **Capital grants and contributions** - amounts awarded to the Council in return for past or future compliance with certain stipulations.

(b) **Capital receipts** – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.

(c) **Revenue contributions** – amounts set aside from the revenue budget in the Reserve for Future Capital Funding.

(d) **Borrowing** - amounts that the Council does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

2.9 The implications of financing capital expenditure from 'borrowing' are explained in section 3 below.

3.0 CAPITAL FINANCING REQUIREMENT AND BORROWING

Context

3.1 The County Council is required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans.

3.2 Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.

3.3 A summary of the actual prudential indicators for 2016/17, and the estimates for 2017/18 through to 2020/21, are provided in **Appendix B Section 11**.

Capital Financing Requirement

3.4 When capital expenditure is funded from borrowing, this does not result in expenditure being funded immediately from cash resources, but is instead charged to the revenue budget over a number of years. It does this in accordance with its policy for the repayment of debt, which is set out in **Appendix B Section 11.**

3.5 The forward projections of the CFR reflect:

- Additional capital expenditure from borrowing or further credit arrangements resulting in an increase to the CFR and

- Revenue budget provision being made for the repayment of debt, which results in a reduction to the CFR).

3.6 The actual CFR for 2016/17 and forward projections for the current and forthcoming years are as follows:

Item	2016/17 Actual £m	2017/18 Probable £m	2018/19 Estimate £m	2019/20 Estimate £m	2020/21 Estimate £m
Capital Borrowing	322.0	307.0	295.3	283.4	272.3
Other Long Term Liabilities	5.3	5.1	4.7	4.4	4.0
Total Capital Financing Requirement	327.3	312.1	300.0	287.8	276.3

3.7 The forecast reduction in the CFR is a result of the annual provision for the repayment of debt each year being in excess of the amount of capital expenditure that it is intended to finance from borrowing based on the current capital programme up to 2020/21.

3.8 The CFR may potentially increase dependent on the level of capital investment undertaken. Currently, the Capital Plan does not include expenditure relating to alternative investments (other than loans to Limited Companies). As alternative investment plans are developed and approved the Capital Plan will be updated which may potentially impact on the Capital Financing Requirement.

External Borrowing Limits

3.9 The Council is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR). To ensure that external borrowing does not exceed the CFR, other than in the short term, limits are established for external debt, as follows:

- **Authorised limit** – this defines the maximum amount of external debt permitted by the Council, and represents the statutory limit determined under section 3 (1) of the Local Government Act 2003.

- **Operational boundary** – this is an estimate of the probable level of the Council's external debt, and provides the means by which external debt is managed to ensure that the 'authorised limit' is not breached.

3.10 The proposed limits, which are set out in **Appendix B Section 3**, make separate provision for external borrowing and other long-term liabilities, and are based upon an estimate of the most likely but not worst case scenarios. They allow sufficient headroom for fluctuations in the level of cash balances and in the level of the CFR.

3.11 Alternative investment activities are likely to be classed as capital expenditure. The Alternative Investments Strategy is still evolving though and, in the event that major initiatives are proposed, in excess of those already in the Capital Programme, it may be necessary to review the current borrowing limits.

3.12 The agreed **Operational Boundary** and **Authorised Limits** for external debt are as follows:

Item	**2017/18 probable £m**	**2018/19 estimate £m**	**2019/20 estimate £m**	**2020/21 estimate £m**
Debt outstanding at start of year	309.0	313.4	301.7	290.7
+ **External borrowing requirements**				
Capital borrowing requirement	7.6	0.4	-0.1	0.2
Replacement borrowing	21.4	2.5	22.0	27.1
MRP charged to Revenue	-22.6	-12.1	-11.8	-11.3
Borrowing b/fwd from 2016/17	13.0	-	-	-
Internally funded variations	6.5	0.0	0.9	16.1
Sub-total	25.9	-9.2	10.9	32.1
- **External debt repayment**	-21.4	-2.5	-22.0	-27.1
= **Forecast Debt Outstanding**	**313.4**	**301.7**	**290.7**	**295.6**
+ **Other 'IFRS' long term liabilities**	5.1	4.7	4.4	4.0
= **Total Debt Outstanding**	**318.5**	**306.4**	**295.1**	**299.6**
+ **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	21.4	2.5	22.0	27.1
= **Operational Boundary for year**	**359.9**	**328.9**	**337.1**	**346.8**
+ **Provision for cash movements**	20.0	20.0	20.0	20.0
= **Authorised Limit for year**	**379.9**	**348.9**	**357.1**	**366.8**

Borrowing Strategy

3.13 The County Councils Borrowing Strategy is set out in **Appendix B Section 8**.

3.14 The County Council is currently maintaining an under borrowed position. This means the Capital Financing Requirement (CFR) has not been fully funded from long-term external borrowing as cash supporting the authority's reserves and balances has been used as a short term measure.

3.15 The use of internal borrowing has been an effective strategy in recent years as:

- It has enabled the Council to avoid significant external borrowing costs; and
- It has mitigated significantly the risks associated with investing cash in what has often been a volatile and challenging market.

The internal borrowing position will be carefully reviewed and monitored on an ongoing basis in order to consider any changes to borrowing rates as well as current and future cash flow constraints.

3.16 Further long term external borrowing may be undertaken, in excess of the current forecasts, in the event that it is not possible or desirable to sustain the anticipated internal borrowing position.

3.17 The external borrowing requirement will be kept under review, and long term external loans will be secured within the parameters established by the authorised limit and operational boundary for external debt (as set out within **Annex B**).

3.18 Opportunities to generate savings by refinancing or prematurely repaying existing long term debt will also be kept under review. Potential savings will be considered in the light of the current treasury position and the costs associated with such actions.

Minimum Revenue Provision

3.19 The County Council sets cash resources aside from the Revenue Budget each year to repay the borrowing. This practice is referred to as the minimum revenue provision (MRP) for the repayment of debt.

3.20 The Capital Financing Requirement (CFR) provides a measure of the amount of capital expenditure which has been financed from borrowing that the Council yet to fund from cash resources.

3.21 Statutory guidance requires MRP to be provided annually on a prudent basis. In accordance with the requirement to make a prudent 'revenue provision for the repayment of debt', the Council ensures that debt is repaid over a period that is commensurate with the period over which the capital expenditure provides benefit. This is achieved by applying the methodology set out in **Appendix B Section 11**. The revenue budget provision for MRP charges in 2018/19 has been compiled on a basis consistent with this policy.

4.0. ALTERNATIVE INVESTMENTS

Introduction

4.1 The prolonged low interest rate environment has resulted in reduced returns on treasury management investments. Moreover, the introduction of the general power of competence has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, have led many authorities to consider different and more innovative types of investment.

4.2 CIPFA recently issued an update to its Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced by the new Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies.

4.3 Separately, the Department for Communities and Local Government has recently consulted on changes to its statutory Guidance on Local Authority Investments. At the time of writing this strategy, the revised statutory guidance had not been issued, but it is expected that the guidance will reinforce the need for commercial investment activity to be included in the annual Capital Strategy.

4.4 In advance of confirmation of the statutory requirements related to commercial investment activities, the following paragraphs provide an overview of the Council's current approach to commercial investment activity. This section of the Capital Strategy will need to be updated once the revised statutory Guidance on Local Authority Investments is published and/or as the Council's own agenda for commercial investments evolves.

4.5 All alternative investment activities are subject to approval in accordance with the Council's governance framework for decision making.

Alternative Investment Objectives

4.6 The primary objectives of alternative investment activities are:

- Security – to protect the capital sums invested from loss; and
- Liquidity – ensuring the funds invested are available for expenditure when needed.

The generation of yield is distinct from these prudential objectives. However, once proper levels of security and liquidity are determined, it is then reasonable to consider what yield can be obtained consistent with these priorities.

Non-core activities and investments are primarily undertaken by the Council in order to generate income to support the delivery of a balanced budget. Such investments are only entered following a full assessment of the risks and having secured expert external advice (i.e. where it is relevant to do so).

4.7 An overall maximum exposure of £50m for alternative investments was approved by Executive in August 2017.

Commercial Investment Board

4.8 Given the technical nature of potential alternative investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, a Commercial Investment Board has been established. All investments will be subject to consideration and where necessary recommendations of the Commercial Investment Board.

4.9 The Board is not be a constituted body and therefore does not have formal decision making powers. However, it is the chief means of identifying, reviewing and recommending schemes for investment decisions. Formal decisions on investments will be taken within the existing delegations namely through delegated authority to the Corporate Director, Strategic Resources and further decisions as made by the Executive.

4.10 The Board has delegated authority to approve individual investments up to a limit of £1m per investment and up to a total of £5m in any one financial year.

4.11 The responsibilities of the Board also include:

- To consider appropriate due diligence proportionate to the investment/risk/reward proposed.

- Terminate investments should concerns be raised - to consider and recommend cases for early termination of alternative investments.

- To monitor returns against approved performance targets.

- To report performance of alternative investments to the Executive on a quarterly basis

- To make recommendations to Executive on any proposed changes to the framework.

4.12 Membership of the Board is as follows:

- Lead Member for Finance (Chair)
- Lead Member for Growth
- Corporate Director Strategic Resources
- Corporate Director Business and Environmental Services
- Assistant Director Strategic Resources – LBP to CFO

- Assistant Director BES - Growth, Planning and Trading Standards

<u>Investment Properties</u>

4.13 Options are currently being considered for the acquisition of land and buildings for investment purposes, rather than for the supply of goods or services or for administrative purposes. Such assets will be classified as Investment Properties.

4.14 Investment properties will be measured at their fair value annually (which will ensure the valuation reflects the market conditions at the end of each reporting period). The fair value measurement will enable the County Council to assess whether the underlying assets provide security for capital investment. Where the fair value of the underlying assets is no longer sufficient to provide security against loss, mitigating actions will be considered, to ensure that appropriate action is taken to protect the capital sum invested.

4.15 The approach to the acquisition of an investment property portfolio is still being developed. An Investment Property Strategy is currently being formulated and will be considered by the Alternative Investment Board before being submitted to Executive for approval.

Loans to Third Parties

4.16 Loans to third parties will be considered, as part of a wider strategy for local economic growth, even though they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.

4.17 Such loans will be considered when all of the following criteria are satisfied:

- The loan is given towards expenditure which would, if incurred by the Council, be capital expenditure;

- The purpose for which the loan is given is consistent with the Council's corporate / strategic objectives and priorities;

- Due diligence is carried out that confirms the Council's legal powers to make the loan, and that assesses the risk of loss over the loan term;

- A formal loan agreement is put in place which stipulates the loan period (*which will not exceed 25 years*), repayment terms and loan rate (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General Fund, and takes appropriate account of state aid rules) and any other terms that will protect the Council from loss;

4.18 The County Council does not currently have in place any loans with third parties.

Loans to Limited Companies

4.19 The County Council has made a number of loans in recent years for policy reasons and will continue to monitor and review this position.

(a) the County Council's general investment powers under this Annual Treasury Management and Investment Strategy come from the Local Government Act 2003 (Section 12). Under this Act a local authority has the power to invest for any purpose relevant to its functions or for the purpose of the prudent management of its financial affairs;

(b) in addition to investment, the County Council has the power to provide loans and financial assistance to Limited Companies under the Localisation Act 2011 (and also formally under the general power of wellbeing in the Local Government Act 2000) which introduced a general power of competence for authorities;

(c) any such loans to limited companies will not be classed as investments made by the County Council. Instead they will be classed as capital expenditure and will be approved, financed and accounted for accordingly;

(d) at present the County Council has made several loans to companies in which it has an equity investment. In all cases loan limits are set, and reviewed periodically, by the Executive; and

4.20 The County Council has the following long term loans to its subsidiary in place as at 31 December 2017:

Subsidiary	**Total Loan Agreed £m**	**Loan Advanced £m**	**Loan Term (Years)**	**Interest Rate %**	**Loan Balance £m**
NYnet	10.00	Overdraft	N/A	3.0 + Base	0.60
Yorwaste – Loan 1	3.70	2017/18*	10	4.0 + Base	3.70
Yorwaste – Loan 2	3.85	2017/18	10	4.0 + Base	3.50
Brierley Homes	2.75	2017/18	2	4.0 + Base	0.12
First North Law	0.25	2017/18	10	4.0 + Base	0.04
Total	**20.55**				**7.96**

* Loan extension agreed 2017/18

Other Alternative Investments

4.20 At the time of writing this section of the Capital Strategy, other alternative investment activities are in the early stages of development. Consideration of individual investment opportunities will be subject to detailed business cases and subject to review and approval by the Alternative Investment Board and Executive. The Capital Strategy will be updated should further investment opportunities be developed during 2018/19 and/or in the event that the statutory Guidance on Local Authority Investments, when issued, requires further content to be included.

5.0 SECTION 151 OFFICER STATEMENT

Background

8.1 The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) plays a key role in capital finance in local authorities. Local authorities determine their own programmes for investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.

8.2 In financing capital expenditure, local authorities are governed by legislative frameworks, including the requirement to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

8.3 In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability, the Prudential Code requires authorities to have in place a Capital Strategy that sets out the long term context in which capital expenditure and investment decisions are made, and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

8.4 The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy. The following are specific responsibilities of the Section 151 Officer:

- recommending clauses, treasury management policy/practices for approval, reviewing regularly, and monitoring compliance;
- submitting quarterly treasury management reports;
- submitting quarterly capital budget 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.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money

- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority

- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing

- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources

- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities

- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees

- ensuring that members are adequately informed and understand the risk exposures taken on by an authority

- ensuring that the authority has adequate expertise, either in house or externally provided

- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed

North Yorkshire County Council

Audit Committee

1 March 2018

Review of Assurance over Value for Money

Report of the Corporate Director – Strategic Resources

1.0 Purpose of report

1.1 To consider the ongoing arrangements made within the County Council in respect of achieving Value for Money (VfM)

1.2 To consider how overall assurance is obtained about the effectiveness of these arrangements

2.0 Background

2.1 The Audit Committee terms of reference in respect of Value for Money are:

"to have oversight of the arrangements across the County Council in securing Value for Money".

This is achieved through on-going evaluation of a range of activity within the Council but an annual report is considered by the Committee in order to give due focus to value for money.

A concise definition of VfM is the assessment of the cost of a product or service against the quality of output received. It is therefore not simply about cheapest price.

2.2 The National Audit Office (NAO) uses three criteria to assess the value for money of authorities spending i.e. the optimal use of resources to achieve the intended outcomes:
Economy: minimising the cost of resources used or required (inputs) – spending less;
Efficiency: the relationship between the output from goods or services and the resources to produce them – spending well; and
Effectiveness: the relationship between the intended and actual results of public spending (outcomes) – spending wisely.

2.3 VfM plays an integral part of many aspects within the Council, ranging from how the Council Plan is drawn up right down to individual decisions that take place on a daily basis; in other words VfM is built into the fabric of the Council as it is a fundamental consideration within every action.

2.4 By way of example, within any decision process, in order to help ensure VfM has been considered and realised some simple questions can be asked:

- What level of quality are we looking for?
- Is expenditure required? And if so, can we be sure it will help achieve the objectives of the Council?
- What is a fair price to pay for the good or service?

By answering these questions confidence can be gained that the decision will have a positive VfM outcome.

3.0 National Audit Office

3.1 The National Audit Office (NAO) produced Auditor Guidance Note AGN 03 – **"Auditor's conclusion on arrangements to secure value for money in the use of resources"** in November 2015 to assist Auditors on how they should arrive at their VFM Conclusion.

The direction of travel the NAO are looking to take for the VfM Code is for it to be principles based, which requires auditors to be satisfied at a relatively high level that the authority has secured the "3 E's": economy, efficiency and effectiveness.

3.2 This is then distilled into the "proper arrangements" which give auditors guidance on how to substantiate VfM. This is split into three categories:

Informed decision making – e.g. appropriate cost & performance information to support decision making.

Sustainable resource deployment – e.g. managing assets effectively (including finances) to support delivery of strategic priorities.

Working with partners and other third parties – e.g. commissioning effectively to support delivery of strategic priorities.

3.3 The auditor will then reach a statutory VfM conclusion based on the following criteria:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

In the Annual Audit Letter for 2016/17, the Councils Auditors KPMG said

"We issued an unqualified conclusion on the Council's arrangements to secure value for money (VFM conclusion) for 2016/17 on 11 September 2017. This means we are satisfied that during the year the Council had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources.
To arrive at our conclusion we looked at the Council's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties."

4.0 Existing assurances

4.1 Within North Yorkshire County Council, there are a number of activities that individually may not guarantee VfM by themselves, but by considering each of these against the principals of VfM and in conjunction with the "proper arrangements" help ensure increased confidence that VfM is being achieved.

The following is not an exhaustive list of the actions that occur but do stand to highlight the broad approach that takes place:

The **Council Plan** continues to be a framework that is used to help focus efforts, ensuring they are aligned with our strategic objectives. This is one of the key principles behind delivering VfM: alignment of goals to promote effective utilisation of resources. The Council Plan has been recently updated and encompasses other corporate strategies such as: Young and Yorkshire 2, A Vision for Health and Adult Services - People Living Longer, Healthier, Independent Life's, Modern Council , Business and Environmental Services Ambition for Growth

- One of the goals of the **2020 North Yorkshire Programme** is to improve the productivity within the Council by conducting a transformational change in the way we work. For example the Modern Council project integrates our approach to delivering savings by drawing together property, people and technology in to a single project. The approach includes not only modernising the IT kit, e.g. laptop, smart phones, video conferencing, etc... But also changing the way in which that technology is used, to rationalise our property portfolio, by introducing new ways of working, supported Organisational Development and modern HR policies. As the workforce decreases it is essential that the workload can be absorbed at this requires investment (in order to save).

- Service Planning via the **plan on a page** approach has been adopted over the last 3 years where the reception has been generally positive and strong uptake throughout the authority. The principle of plan on a page is to identify the high level objectives of each service and the enablers required to achieve them. **Appendix A** shows a high level version for the 2018 service Plan and outlines the vision, values and objectives. Acceptance of this approach has strengthened congruence and clarity of goals across the Council at all levels. The service plans now include a range of Key Performance Indicators (KPI) that measure the success of the plan. These KPI now form the basis of the corporate KPI suite which is reported on in the performance Q report to Executive.

- During the past 12 months two new corporate services have been established that will have a direct impact on ensuring improved VfM. The two services are The Procurement and Contract Management Service and The Strategy and Performance Team, as part of a wider review of Strategic Support

- The new Procurement and Contract Management Service has overall responsibility for all aspects of the procurement cycle, including policy, procedure and process. The Service is managed by the Head of Procurement & Contract Management who leads on procurement policy. The structure also includes a specific role for Contract Management. This role has oversight for Contract Management across the Authority, and continue to share best practice and training to Officers. The role will also take responsibility for managing a number of corporate contracts, including the operational hand over to P2P. In the main, and apart from contracts designated as corporate, contract management will continue to happen within Directorates, with support and guidance from the Procurement and Contract Management Service as required.

  This forms the Council's Procurement and Contract Management Service, which is ultimately responsible to the Corporate Procurement Board (CPB) within the Council's management structure. CPB owns the Council's corporate procurement strategy and the supporting strategy action plan

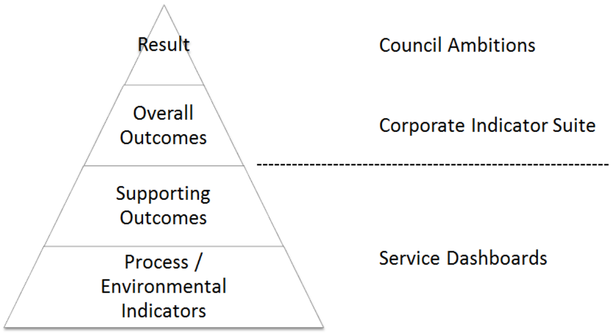
- The Strategy and Performance Team proposes to further enhance the Council's performance framework, by building on current good practice within the organisation, and applying it more consistently across services.

  This includes opportunities for the Council to gain further assurance that it:
  - Sets strategic priorities that are outcome focussed and consistent with identified need.
  - Maximises the use of resources and achieves value for money.
  - Continues to focus on delivering good VFM, and where there are opportunities found for development that they are supported.
  - Teams and individuals understand their own contribution and how they are performing against it.

- Whilst a number of services are already working in this way, the proposals are designed to ensure consistency, and to support managers to have focussed performance improvement conversations. The proposed enhancements that will be facilitated by the new Strategy and Performance Team are set out in **Appendix B** below;

- In addition to the annual budget setting process, the Council also completes a Medium Term Financial Strategy (**MTFS**). The value of this is to look further ahead when planning resources with the aim of optimising them over multiple years. The purpose of this longer term view is to avoid the issue created by focusing solely on the short term is that decisions can inhibit longer term decision making which drives long term value.

- The quarterly performance reports (**Q reports**) continue to evolve with a stronger emphasis on reporting the right level of detail, data and commentary. As from Q2 (30 September 2017) the Strategy and Performance team have introduced new style of reporting based on the Outcomes Based Accountability (OBA) model. This has delivered a **hierarchy of performance indicators,** which will streamline the performance management process, maintain focus on delivery and improve our ability to tell the performance story. This is particularly helpful when assessing how well we are doing, or what could be done differently around many of the complex systems which the Council has a leadership role in influencing and delivering. (a copy of the new Q report is attached)



- An initial corporate KPI suite has been developed from indicators currently being utilised across the organisation. Drawing them together and framing them in this way provides Management Board & Cabinet a broader overview of performance across the Council, as well as progress against the council ambitions. It will be reviewed annually to ensure it remains focussed around the Councils priorities.

- Overview and Scrutiny also continue to provide an additional level of challenge. Quarterly performance briefings are provided to Chairs of Scrutiny Committee's (Scrutiny Board), and plans are in development to align elements of performance with individual Scrutiny Committee's work programme and forward plans.

4.2 By the end of 2017/18 the County Council will have delivered £142m of savings. It is estimated, however, that a further £44m will be required from 2018/19 to 2021/22. The aggregate savings requirement of £186m broadly equates to a reduction of over a third in the Council's spending power since 2011. It is therefore essential that the County Council has a sound medium to longer term strategy to address this financial challenge.

5.0 Development Areas

5.1 The following items have been identified as areas that will further improve our ability to drive positive VfM:

- Continue to develop the plans on a page with regular reporting & monitoring cycles to Executive via the new style Q reports. The aim of this is to improve consistency of planning approach across the authority. It also aims to develop richer and more insightful performance metrics for each service, via the corporate KPI suite

- The Strategy and Performance team to develop the stronger use of data and information, in partnership with the Data & Intelligence function of T&C. This will provide greater insight into the performance of the council. A key aspect of this this will be benchmarking across the services and with other authorities, to enable a clear picture on the relative cost drivers of a services.

- Service objectives will be developed through the Service & Team Planning cycle and refreshed every 12 months. These plans will ensure corporate performance questions continue to be a central feature, but in future overlaid with a balance of quantity, quality and outcome measures as set out below. Initially this will be through traditional methods, but over time this will increasingly be delivered through self-service and automation driven through BI software. This will also provide the ability to drill down to team, or even individual level data.

- Earlier delivery of performance data so management can make decisions which have the opportunity to impact more immediately.

- At the beginning of 2017, Sir Michael Barber was appointed to advise and investigate how central government can ensure it is delivering maximum value for every pound spent on public services. Sir Michael Barber published his review in November 2017 (https://www.gov.uk/government/publications/delivering-better-outcomes-for-citizens-practical-steps-for-unlocking-public-value

  The Council will take stock of the recommendations set out in the report and will need to consider if and how it incorporates appropriate aspects in to the Councils governance structures.

6.0 Recommendations

6.1 That the Audit Committee -

a) Consider the arrangements currently in place for assuring value for money;
b) Identify any areas for further development in the assurance arrangements;
c) Confirm if they are satisfied that this report adequately contributes to the requirements of fulfilling the terms of reference noted in section 2.1.

GARY FIELDING
Corporate Director – Strategic Resources
March 2018

Report prepared by Tony Law
Team Leader Strategy and Performance BES
Tel no. 01609 532375

Appendix A – NYCC Council plan on a page

Council Vision	We want North Yorkshire to be a thriving county which adapts to a changing world and remains a special place for everyone to live, work and visit.
Council Ambitions Supported ***(Could be 1 or all Council Ambitions)***	Every child and young person has the best possible start in life. Every adult has a longer, healthier and independent life. North Yorkshire is a place with a strong economy and a commitment to sustainable growth that enables our citizens to fulfil their ambitions and aspirations. We are a modern council which puts our customers at the heart of what we do.
Service Purpose:	
Service Outcomes: ***(Could be more or less than 4)***	1 2 3 4
Required support from other Service areas	E.G Human Resources E.G Technology & Change E.G Strategy & Performance E.G Finance

Appendix B

	Proposed enhancements to strategic planning and performance management
a	A proportionate approach to service and team planning, recognising that many operate on time lines beyond the current 12 month cycle. Where appropriate services will set out a longer term plan consistently aligned to the Council's strategic direction with a light touch annual review focussing on the delivery detail for the next financial year.
b	By supporting the development of good quality service and team plans alongside performance dashboards, managers and teams will have access to the information required for them to articulate performance against the Key Performance Questions, which underpin the current performance framework
c	A performance management group for every service management group, supported by the Strategy and Performance Team, as set out in Figure 2. These will be tailored to meet specific service requirements, but should meet at least on a quarterly basis.
D	Consistency of performance information across the Council. Many services have good performance information, but we will ensure each service operates at the level of the current best. We will develop a consistent baseline suite of Key Performance Indicators (KPIs), based upon the learning from work on the proof of concept Corporate Dashboard. This approach will provide visibility of performance across the Council and key partnerships. The indicator suite will be constructed in order to provide transactional performance information and the ability to develop evidence based narrative of progress towards ambitions.
E	The production of open data, where this adds value, and Business Intelligence products, with drill down facility from strategic to service and team level indicators. Work is on-going to prioritise the development of these products based on risks to the organisation and potential impact in terms of service improvement.
F	The Strategy and Performance Team providing capacity for "deep dive" analysis and challenge around performance development opportunities identified by senior officers.
G	Revisions to quarterly reporting which better align performance and financial information, and which provide a balance between inward facing performance challenge and balanced performance reporting in the public domain. For example: • a revised and more focussed internal process for supporting transparent performance discussions with services, corporate Management Board and Executive Members. This will include a mechanism for RAG rating performance and escalating/de-escalating areas of concern. • an enhanced external performance report to inform customers about what and how well the Council is doing against its corporate and service objectives. This would include better developed narrative evidencing progress towards ambitions, priorities and outcomes set out in the Council Plan. This report would be reported to the Executive.
H	Co-ordinating the corporate strategic planning calendar to ensure even greater synergy between MTFS and Council Plan objectives (see Figure 3), whilst at the same time recognising that some activity will need to take place outside of this calendar for pragmatic or political reasons.

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 MARCH 2018

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 2018 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.

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 2018

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

13 February 2018

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 2018

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
A	Payment Card Industry Data Security Standard	Limited Assurance	The audit reviewed the processes in place to ensure compliance with the Payment Card Industry Data Security Standard (PCI DSS)	March 2017	Overall we found officers within the council are aware of PCI DSS and recognise the need for compliance with the standard. However, no senior officer had been allocated responsibility for managing compliance with PCI DSS. There was also no strategy or policy to help ensure compliance with the standard. Work had also not been completed to ensure all processes and systems that accept payment by card had been identified and assessed. As a result, relevant staff may not have received training and the council has not established which PCI DSS self-assessment questionnaire(s) it needs to complete.	**Five P2 actions were agreed** **Responsible Officer** Assistant Director Strategic Resources The AD (strategic resources) has now been identified as the lead officer and is leading the project to ensure compliance and develop appropriate policies and processes.
B	Business Continuity and Disaster Recovery	Substantial Assurance	The audit followed up the agreed actions from the 2015/16 audit report to ensure that those actions scheduled for implementation were complete. The audit also assessed whether sufficient progress was being made for those actions with longer completion dates.	March 2017	The audit found that progress is being made in implementing the agreed actions from the previous audit report. Business continuity champions have been identified and they are aware of their responsibilities. The champions are required to review plans and ensure two way communications.	A further follow-up audit will be undertaken to ensure progress is maintained.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					At the time of audit not all business continuity plans had been updated, however a suitable plan was in place to ensure this work is completed.	
C	Pension Fund Expenditure	Reasonable Assurance	The audit reviewed the processes and controls in place for making changes to pension records to ensure all changes are carried out promptly and accurately. The audit also reviewed processes to ensure the Pension Altair system and relevant ESS payroll records are reconciled on a periodic basis.	April 2017	The audit found that there is no systematic reconciliation between the Altair system and the ESS ResourceLink system. Errors and inconsistencies between system records may therefore not be identified. There are a number of pensioners in receipt of small monthly payments where the processing costs exceed the actual payments made. The guidance for processing a deceased pensioner record is not sufficiently detailed and therefore ESS and the NYPF are not sufficiently aware of each others responsibilities. As a result this has occasionally resulted in delays in stopping or recalling payments.	**One P2 and three P3 actions were agreed** **Responsible Officer** Head of Pensions Administration Consideration will be given to introducing an annual reconciliation between both systems. The possible impact on other projects and resources would however need to be taken into account. Subject to developing appropriate protocols, the Pension Fund agrees with the recommendation to make some pension payments on an annual basis. Further discussions will take place to understand the necessary system changes to enable this to happen. A further exercise will be carried out to obtain death

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
						certificates and update Altair and ResourceLink records for cases which have been suspended. Deadlines will be clarified for payroll runs so that staff are clear what action can and should be taken to stop individual payments so as to prevent overpayments occurring.
D	Asset Management	No Opinion Given	The audit reviewed the progress being made to ensure that the property portfolio is managed effectively and meets the future planned accommodation requirements of the Council. The audit also reviewed payments made to Mouchell to check they were accurate and in accordance with the service ordered.	May 2017	Good progress is being made. Work is ongoing to convert the management of the property portfolio from a directorate based system to a corporate system. This is a significant task and will take time to complete. At the time of the audit, a plan for the next 12 months had been developed. Some further long term planning was also being developed across all areas. Details of the council's property portfolio are held on an asset management system called 'Concerto'. It is anticipated that it will take around three years to update the system and produce meaningful data in all the required areas. The Corporate Property review to	**No actions were reported that require further action.**

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					support the 2020 programme is well under way. It is anticipated that the review will be complete by May 2018. Payments to Mouchell for work done from April to September 2016 were checked. All the payments tested were found to be timely, accurate and agreed to the details of the service ordered.	
E	Debtors and Income Management System	Reasonable Assurance	The audit concentrated on the creation and maintenance of debtor accounts, the processing of invoices and debt recovery.	June 2017	There are a large number of duplicate debtor accounts created due to data quality issues. This creates inefficiencies and potential confusion. The Credit Control Team is currently required to manually print all invoices and recovery letters, which are then posted. The time taken to undertake this process has an impact on recovery work and other activities. Although all accounts reviewed had the appropriate recovery action scheduled, in a number of cases reminders were not issued within the required timescales but were instead held up in the work queue. It was also noted that the number of debts requiring recovery action at the end of March 2017 was around 30% higher than the previous year	**Two P2 and one P3 actions were agreed** **Responsible Officer** Head of Technical Finance The creation of Debtor Accounts and the recovery process will be considered as part of the Income and Debt Management Project. The functionality necessary to send invoices via email to customers is currently being investigated by the Systems Team within T&C.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					end figure.	
F	Main Accounting	Substantial Assurance	The audit reviewed the controls in place for the processing of Journals. Data analysis software was also used to check for duplicate journals, journals created at suspicious times and any orphan cost centres. The audit also reviewed the progress made against the implementation plan for the new Oracle system.	June 2017	The controls and procedures within the Main Accounting system were generally found to be working effectively and efficiently. Journals were input as expected and no orphan cost centres were identified. However, testing discovered a small number of duplicate journal entries had been entered by Oracle users and remained undetected before the journal was posted. After the journals were posted, some but not all were detected as duplicates by budget managers and corrected. Delays have also occurred in the roll out of Oracle compared to the original programme timetable. The delays were caused by the decision to include planning and forecasting within the scope of the programme (after the project commenced) and because the complexities / resource requirements of data migration were underestimated.	**Two P3 actions were agreed** **Responsible Officer** Head of Technical Finance The list of identified duplicate journals was reviewed and corrected as appropriate. Integrated Finance will continue to monitor and review the process periodically. Management were aware of and recognised the reasons behind the delayed implementation of Oracle. These issues are being picked up as part of the review of Oracle implementation.
G	Creditors	Reasonable Assurance	The audit reviewed the controls within the system to ensure that invoices are processed in accordance with agreed policies	July 2017	Pending the full implementation of the electronic P2P system, the council continues to operate a largely paper based system, which	**Four P2 and one P3 actions were agreed** **Responsible Officers**

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			and procedures. The audit also reviewed the process for changing supplier bank account details so as to ensure sufficient verification takes place to protect the Council against fraud		has a number of inherent weaknesses in such a large organisation. There is no authorised signatories list as the document would be impractical to maintain. However, although no inappropriate purchases were identified during testing, a number of payments were identified where there was no separation of duties, or where goods receipt was not recorded. In addition, the Finance Manual was not available on the intranet to provide guidance to staff. Whilst there are clear guidelines on the verification checks which need to be completed when processing requests to amend supplier bank account details on Oracle these guidelines are not being followed in all cases.	Head of Business Support Head of Technical Finance Business Support Manager Reminders have been issued to staff within business support to ensure they sense check the information on invoices, and to managers to ensure they understand the importance of checking expenditure and goods receipting. A note has been added to the intranet page for the Finance Manual directing staff to the Finance Enquiries Service, and the manual with be uploaded once it has been updated. A PowerPoint presentation about the importance of verifying changes to bank details will be delivered to Business Support Staff.
H	Budget Preparation and Management	Substantial Assurance	The audit reviewed the progress made in the implementation of the new Oracle system, and how this has improved procedures to make budget preparation and management more effective. A survey was issued to budget	July 2017	Whilst training had been provided to most budget managers, only a third felt that they had adequate knowledge of the system. A number of budget managers also asked for additional training.	**Two P3 actions were agreed** **Responsible Officers** Assistant Director Strategic Resources Head of Finance – Internal Clients

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
			managers by the Finance Team seeking feedback on the changes. Discussions were then held with a sample of managers as part of the audit. The extent to which the new Finance Enquiry Service (FES) is being utilised by managers was tested through data analysis and comparison of performance indicators.		All of the managers interviewed stated that the forecasting process was time consuming and the new BI Dashboard was too busy and not user-friendly. The majority of the budget managers felt that FES was useful for back office amendments to their budgets. However, a number of managers commented that FES staff sometimes did not have sufficient service knowledge and that more complex enquiries could therefore take longer to resolve.	Finance is developing an e-learning course to be rolled out to all budget managers. In addition, a captivate video resource will be created to provide a visual reference for how to utilise the Dashboard and forecasting tool. The budget manager hierarchy has recently been restructured with team managers formally assigned to cost centres as budget managers and strategic managers assigned to strategic level parent codes. The current priority matrix system for enquiries will be reviewed as part of a wider evaluation of the FMS.
I	Bank Accounts and Mandates	Substantial Assurance	The audit reviewed the controls in place for the operation of the Barclays Business Internet Banking system to ensure appropriate segregation of duties, clear permissions and authorisation limits are in place and that there is a suitable secure process for adding and removing users.	August 2017	The council has a ‘complex mandate’ in place which means that for any payment there must always be two authorised signatories processing the transaction. However, there is no formal process for dealing with users who no longer require access to the system. At the time of audit it was not possible to remove suspended users from the system. As a result	**Two P2 and one P3 actions were agreed** **Responsible Officer** Head of Technical Finance Key contact details have been changed, and the upgrade of the system has taken place. The system upgrade added the functionality for System Administrators to remove

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					there were a large number of suspended users who were no longer employed by the council. The details for the NYCC designated contact with Barclays were also out of date. It is the sole responsibility of the system administrators of organisations that use the Barclays Business Internet Banking facility to manage their user access arrangements. Barclays do not acknowledge when changes are made or if they suspend an account due to inactivity or make any other changes.	suspended users from the system. Technical Finance now undertake a periodic review of Internet Banking users to ensure user accessibility is up to date The change notification process with Barclays will be reviewed as part of the annual service review process.
J	Pension Fund Income	Substantial Assurance	The audit reviewed the procedures and controls to ensure data submitted by employers to NYPF was complete and contained the correct information, and that the data was subject to appropriate checking and validation prior to submission. The audit also reviewed action taken as a result of the previous audit where a different sample of employers was checked.	August 2017	Prior to the information being submitted to the NYPF a 10% sample check of records was undertaken by ESS staff. Evidence on this checking was retained. However, it was unclear how the sample was selected and if the sample covered a suitable variety of scenarios. The guidance now issued to employers clearly shows that the completion and return of the checklist is a mandatory requirement and the year end file will not be processed if this is not done. There is also an expectation	**Two P3 actions were agreed** **Responsible Officers** Head of Pensions Administration NYPF will include wording in the email issued January / February each year to provide guidance to employers advising which categories of members should be included in the checking exercise.

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
					that the checklist will be signed off by someone who is on the NYPF authorised signatory list.	
K	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. The audit also reviewed the reconciliation of invested funds.	September 2017	No significant control issues were identified.	**No actions were reported that require further action.**
L	Pensions Altair System	Substantial Assurance	The audit reviewed the access controls and business continuity arrangements for the Altair system which is used for the administration of the Pension Fund.	September 2017	All the expected key controls are in place and these are generally operating effectively. Relevant security patches and software updates are rolled out when required and there is a suitable process in place for changes to system access. Settings for historic passwords are low and there is no minimum password age, although this is not something that can be changed by the systems administrator. The Altair system has been considered in disaster recovery and business continuity planning, with documented procedures in place such as the Pensions Incident Management Plan.	**One P3 action was agreed** **Responsible Officers** Systems Team Leader The systems provider has been contacted to request that improvements to password controls are considered as a development area.
M	Pension Fund	Reasonable	The audit reviewed the	October	ESS currently perform a random	**Two P2 and one P3 actions**

	System/Area	Audit Opinion	Areas Reviewed	Date Issued	Comments	Action Taken
	Expenditure	Assurance	processes and controls in place for making changes to pensions and to ensure all changes are carried out promptly and accurately	2017	10% check of records that appear on exception reports. However, although the checks are carried out thoroughly they are not targeted to possible higher risk cases. ESS will suspend a pension when requested, but will only end the record and recover any overpayments once they have received a copy of the death certificate. During testing 3 cases were identified where formal death notification had been received by the Pensions Team but this had not been sent to ESS and therefore no recovery of overpayment had taken place. In addition, there were a number of accounts which had been suspended for a long time because it has not been possible to obtain a death certificate. Testing of dependant pensions identified one case where there was no evidence of continued education, but a dependant pension was still in payment.	**were agreed** **Responsible Officer** Head of Pensions Administration The Pensions Team will work with the ESS Manager to ensure clear documented guidance is available detailing the purpose of the exception reports and the checking required on each. ESS staff have been provided with access to Altair so they can locate the death certificates themselves. However, there is a need to re-establish this as part of agreed death process. The resolution the of outstanding backlog caused by missing death certificates is underway. A review of the process will take place to ensure administration keep on top of certificate requests. The process for monitoring children’s pensions will also be reviewed.

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

1 MARCH 2018

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 for Central Services (CS) Directorate in the Annual Governance Statement.

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 areas of improvement in the Annual Governance Statement (AGS), together with the Directorate Risk Register.

3.0 DIRECTORATE UPDATE

3.1 **HR restructure**
The service is currently finalising arrangements for future operating model which will go live from 1 April 2018; this will help deliver savings towards 2020 target and also strengthen the focus around commercial opportunities. The review and restructure has been planned on the premise that the majority of staffing changes through 2020 have been completed and therefore there is a potential risk in how future projects are supported. This risk is in-part mitigated through resource planning, allocation and prioritisation.

3.2 **Commercial development**
There are a number of developments in the commercial agenda:

- Governance arrangements for the Brierley Group of companies has improved following the Executive decision In October 2017 to create a Shareholder Committee. The main role of that body is to approved and sign off strategic business plans and then monitor performance against them. Given the timing of when the body was created, business plans will be reviewed and agreed by the end of March 2018.

- In addition to Brierley Group, there has been a focus on developing North Yorkshire Education Services (NYES). A new Commercial Director was appointed in November 2017 and subsequent commercial challenge sessions for Traded Services took place through December. The intention is, by March 2018, to create a strategic business plan for NYES which supports delivering of the MTFS commercial target.
- The remaining commercial activity is centred on providing support and challenge to council services which do not fall within Brierley Group or NYES. This is a developing area and whilst there are early signs of opportunity further work needs to be done to finalise the commercial strategy.

3.3 **Library reconfiguration**

The reconfigured Library went live in April 2017 with the following objectives:

- Achieve requested budget savings of £1.4m through reconfiguration of service
- Retain current service provision through partnership working with communities and other agencies
- Minimise impact on communities, particularly older and young people

Approaching one year on, these have all been met and additionally there has been no significant decline in business levels or opening hours. Indeed, only two months into the new model and community libraries embraced the Summer Reading Challenge with enthusiasm, many improving on the previous year's performance. It should also be noted that there has been no Central Government challenge or intervention despite the high number of libraries involved (unlike other Local Authorities transitioning fewer / closing libraries).

To ensure the benefits continue to be realised and the new way of working is fully embedded, the service have commissioned a post implement review (PIR) which will start between March and April 2018. The intention of the PIR is to assess current and future risks and then put in place appropriate actions and controls to mitigate. The main challenge facing the service currently is recruitment and retention of quality volunteers. A number of actions are being undertaken to address this issue, for example a reference group meeting was held with volunteers in November 2017.

3.4 **Strategic Support**

Following the launch of the new Strategic Support in July 2017, a number of areas have seen an improvement:

- The approach to data governance has strengthened as a result of creating a dedicated team with specialist knowledge.
- Alongside data governance, the Council is developing its sophistication in use of data through the Business Intelligence team.

Performance Management across the Council has and continues to benefit from these areas: data is providing greater insight and enabling more informed decisions in many areas. It also helping create additional controls, for example development of the Waste Management Information System supporting AWRP as an aid to managing the contract by providing performance information in a timely manner.

3.5 **Statutory accounts window**

As previously noted the window for completing statutory closedown is reducing in line with the following table:

	Current deadline	2017/18 deadline	Reduction in time
Preparation of draft financial statements, signed by s151 officer	30 June	31 May	30 days
Approval and publication of financial statements with audit opinion	30 September	31 July	62 days
Available audit time	92 days	61 days	31 days

This is a key challenge for councils across the country but the production of the 2016/17 accounts gives some cause for confidence. The Audit Committee will clearly have good sight of this area given its role.

In addition to producing a statement of accounts for NYCC and NYPF accounts, officers will also be compiling accounts for the County Council's external companies Align Property Services, Brierley Homes and First North Law

4.0 KEY GOVERNANCE ISSUES

4.1 The key governance issues that were highlighted in the AGS for the forthcoming year not covered by the above relate to:

- **Modernisation of the Council to ensure preparedness for 2020 and beyond**. The following progress has been made:
  - The roll-out of ICT equipment across the Council is nearly complete. This will ensure a good fit and further improvement in productivity.
  - Significant progress has been achieved in the Property Rationalisation Programme with planned savings from multiple sites across the County, most notably in Harrogate, Northallerton and Scarborough. Work is currently underway in Scarborough which will make a significant contribution to savings. However the greatest opportunity to save in the longer term is in Northallerton where the intended concentration on the County Hall campus can reduce the reliance on peripheral buildings.
  - Whilst the approach to business cases is already robust, 2020 are reviewing the process with a view to ensuring consistency of quality across all areas of the Council.

- **Working with Services to ensure that information security risks continue to be managed**. This issue links in with the Information

Governance risk on the Directorate Risk Register. The following progress has been made:

- Service information asset registers have been reviewed and updated in line with policy guidelines.
- There are ongoing training and support sessions with information asset owners so that they are able to understand and properly discharge their responsibilities.
- Individual information sharing agreements are completed for each data sharing activity. The Council is presently looking at some software which will assist all organisations in information sharing arrangements.
- There is a continuing process to raise awareness of information risks and communicate with staff to ensure good Information Governance practices are followed. This includes key messages and blogs on information security and governance.
- Linked to the bullet point above on raising awareness with employees, phishing exercises continue to be carried out. 'Phishing' is the attempt to obtain sensitive information such as usernames, passwords etc. The Council ran a number of controlled phishing exercises to see the response to the email if normal security processes were not carried out and instead the email was left in everyone's inbox. These exercises have no security impact on the network. Linking these exercises with an increased awareness campaign and running the exercise a number of times, we are beginning to see a reduction in the number of times an employee discloses sensitive information.
- Reported breaches continue to be investigated and mitigations implemented to endeavour to prevent any further occurrence

Further detail can be found in Information Governance progress report listed elsewhere on this Committee's agenda.

5.0 <u>DIRECTORATE RISK REGISTER</u>

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

5.2 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.

5.3 The latest detailed DRR is shown at **Appendix A** showing a range of key risks with existing controls and additional actions to minimise them. The detail also shows a ranking of the risks both at the present time and after mitigating action.

5.4 A summary of the DRR is also attached at **Appendix B**. As well as providing a quick overview of the risks and their ranking, it also provides details of the change or movement in the ranking of the risk since the last review in the left hand column.

5.5 An annual and six month review of the Risk Register has taken place since the last report to this Committee. The Risk Register reflects the range of Services but also includes many Corporate initiatives given the leadership role of Central Services on such issues as the 2020 North Yorkshire Programme and beyond, and Performance Management.

5.6 There has been no change to the type of risks included in the Risk Register and little movement in the ranking. The Library Service Transfer to Community Ownership is going well and has consequently had the second ranking reduced at the annual review in August 2017.

5.7 Members will recognise the 2020 North Yorkshire Change Programme and beyond risk, the Information Governance risk and the Commercial Strategy risk from the Corporate Risk Register that was reviewed by this Committee in November 2017.

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

- Information Governance – an enhanced Strategic Support Service has been put in place to ensure Service information asset registers have been reviewed and updated. An action plan has been put together and actions are being implemented to ensure GDPR compliance by May 2018.
- Stronger Communities – the Community Directory called NY Connect has been completed and publicised to all stakeholders. An outcomes framework has been refined and agreed with Public Health, Libraries and other Services which will assist in the evaluation programme to demonstrate the value and impact of stronger communities
- Performance Management – following a restructure of the Support service, a revised Performance Management Framework has been put in place. A number of deep dive reports on challenging performance issues have been produced and provide an emerging pipeline of future areas such as school readiness and market development in HAS.
- Health and Safety – a review and revision of employees' online H&S training and other modules has been carried out.

6.0 RECOMMENDATION

6.1 That the Committee:

i) Note the position on the Central Services Directorate key governance issues;

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

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

GARY FIELDING
Corporate Director, Strategic Resources

March 2018

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/11	**Risk Title**	15/11 - 2020 North Yorkshire Programme and beyond	**Risk Owner**	Chief Exec	**Manager**	CSD SR AD T&C
Description	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.			**Risk Group**	Strategic	**Risk Type**	Corp 20/207

Phase 2 - Current Assessment											
Current Control Measures	2020 Vision and Strategy in place; 2020 North Yorkshire Programme Plan in place and regularly reviewed/updated; Members workshops & political group sessions completed; briefings of Cabinet; regular Mgt Board/Programme Board meetings; staff communication constantly reviewed via intranet and new 'all staff' e mail Directorate and cross cutting themes programme board continue to meet and follow the governance structure; quarterly meetings with finance ADs and programme managers to align savings against programme budgets; Oracle improvements; Behaviour & skills framework reviewed; LGA corporate peer review; review carried out of governance and areas of future focus for Programme Board; all major change programmes are captured within this Programme to better manage dependencies and resources;										
Probability	H	**Objectives**	H	**Financial**	H	**Services**	H	**Reputation**	H	**Category**	1

Phase 3 - Risk Reduction Actions				
		Action Manager	**Action by**	**Completed**
Reduction	15/54 - Regularly review the ICT strategy in light of changes in the organisation both before and after 2020 (ongoing)	CSD SR AD T&C	Sat-31-Mar-18	
Reduction	15/245 - Embed modern council principles through engagement and delivery of Service Operation Model (SOM), implementation of technology, property and OD measures, and a robust review process to measure impact and improvement. (linked to action 20/250)	CSD SR AD T&C	Wed-31-Oct-18	
Reduction	15/394 - Monitor action plan following peer review (ongoing)	CSD AD SR (ML) CSD SR AD T&C	Sat-31-Mar-18	Thu-30-Nov-17
Reduction	15/406 - Continue to embed cultural change and new ways of working (transformational rather than as a savings programme)	CSD SR AD T&C	Tue-31-Mar-20	
Reduction	15/429 - Continually review capacity and capability within services and the impact upon the workforce of the future	CSD SR AD T&C	Fri-31-Aug-18	
Reduction	15/607 - Enhance Strategic Support Service to ensure high quality and robust service and team planning	CSD HoS&P	Sat-31-Mar-18	Thu-30-Nov-17
Reduction	15/608 - Integrate areas of overspend and financial pressure (eg. high needs, DSG) into 2020 programme to ensure visibility of all financial pressures	CSD Mgt Team	Wed-28-Feb-18	
Reduction	15/831 - Continue to monitor delay of Programmes and the effect on benefits (ongoing)	CSD SR AD T&C	Fri-31-Aug-18	
Reduction	15/837 - Continue to implement the Stronger Communities programme to mitigate against proposed budget cuts, support communities to take over local services, and promote community and individual resilience (ongoing)	CSD AD PP	Fri-31-Aug-18	

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Reduction	20/250 - Implement the delivery plan for rationalisation of property in line with new ways of working including further refining of plan and securing resources for Northallerton and delivery of plan in Scarborough (linked to action 15/245)	CSD AD SR (AH)	Fri-31-Aug-18	
Reduction	20/403 - Carry out monthly monitoring of communications and engagement plan including key messages and themes (ongoing)	CSD HoC	Fri-31-Aug-18	
Reduction	20/405 - Continue with the implementation plan for Customer Theme in line with new ways of working	Chief Exec	Fri-31-Aug-18	
Reduction	20/461 - Monitor joined up approach between 'Living Well', CYPS Prevention team and Stronger Communities team and escalate issues to Programme Board if necessary	CSD SR AD T&C	Fri-31-Aug-18	
Reduction	20/505 - Innovate new ideas to cover the shortfall in expected savings in line with the budget report ("the list"), and the anticipated MTFS gap	CSD Mgt Team	Thu-28-Feb-19	

Phase 4 - Post Risk Reduction Assessment

Probability	M	**Objectives**	H	**Financial**	H	**Services**	H	**Reputation**	M	**Category**	2

Phase 5 - Fallback Plan

		Action Manager
Fallback Plan	18/198 - Reprioritisation of savings, further consideration of structures and ways of working	All Mgt Board

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/161	**Risk Title**	15/161 - Information Governance	**Risk Owner**	Chief Exec	**Manager**	CD SR
Description	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			**Risk Group**	Legislative	**Risk Type**	SR 32/25

Phase 2 - Current Assessment											
Current Control Measures	Additional data governance support; Information Governance Strategy including the associated Policy and Procedure Framework; CIGG Action Plan; data breach process; messages from senior management; staff induction; Information Asset Owners identified; information asset registers; DIGCs; posters; intranet information; regular monitoring of electronic communication by ICT; series of unannounced security compliance visits by internal audit; application of all the features of the Information Security Management System (ISMS); FoI – controls include central monitoring of receipt and progress, regular review by Veritau and review of outstanding cases by the Chief Exec on a monthly basis; proactive monitoring of all data; terms of reference reviewed; Directorate Group; internal audit support investigation of significant data breaches; CIGG consider reasons for data breaches and cascade lessons learned; secure physical storage and internal info transfer issues resolved; Non NYCC Network Access Policy produced; e learning training packages refreshed; targeted phishing campaigns; Information Sharing Protocol in place; SAR - controls include central monitoring of receipt and progress;										
Probability	H	**Objectives**	L	**Financial**	M	**Services**	L	**Reputation**	H	**Category**	1

Phase 3 - Risk Reduction Actions		**Action Manager**	**Action by**	**Completed**
Reduction	15/423 - Continue to emphasise personal responsibility of staff for all information in this area, emphasise support from Strategic Support and consider disciplinary action in cases of data breaches	CD SR CSD ACE BS	Fri-31-Aug-18	
Reduction	15/424 - Review and update service information asset registers in line with policy guidelines	CSD SR AD T&C	Tue-31-Oct-17	Tue-31-Oct-17
Reduction	15/426 - Ensure individual information sharing agreements completed for each data sharing activity (some agreements are already in place) - (ongoing)	Ho Int Audit	Fri-31-Aug-18	
Reduction	15/431 - Work within services in a prioritised order to ensure information is secure and transferred securely (ongoing)	CSD SR AD T&C	Sat-31-Mar-18	
Reduction	15/432 - Review existing training approach and investigate additional team based reviews to embed practice	CSD SR AD T&C Ho Int Audit	Tue-31-Oct-17	Tue-31-Oct-17
Reduction	15/433 - Continue communications to staff to ensure good Information Governance including messages from Management Board and associated campaigns (ongoing)	CSD SR AD T&C Ho Int Audit	Fri-31-Aug-18	
Reduction	15/611 - Ensure GDPR compliance by May 2018 deadline	CSD SR AD T&C	Mon-30-Apr-18	
Reduction	20/450 - Continue to review information asset registers and target training where appropriate (ongoing)	CSD SR AD T&C Ho Int Audit	Fri-31-Aug-18	

Phase 4 - Post Risk Reduction Assessment

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Probability	M	Objectives	L	Financial	M	Services	L	Reputation	H	Category	2

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/514 - Review Action Plan and new technology and continue to raise awareness. Invite ICO to carry out an audit of NYCC IG systems	CD SR

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/186	**Risk Title**	15/186 - Stronger Communities	**Risk Owner**	Chief Exec	**Manager**	CSD AD PP
Description	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			**Risk Group**	Community	**Risk Type**	

Phase 2 - Current Assessment											
Current Control Measures	Stronger Communities team; governance structure and controls; engagement with relevant services; implementation plans; budget; key stakeholders including voluntary sector, district, parish and town council sector; health partners; grants scheme; community project development; NY Connect; reviewed community project toolkit; engagement events with communities; working with other relevant council services e.g. Targeted Prevention shared outcome framework; business plans in place for 20 libraries; volunteers policy, guidance & toolkit; preferred supplier list for external support in place; on-line grants system; SLA agreed and signed with Public Health; Connected Communities project (Sleights) and employment of dedicated resource;										
Probability	M	**Objectives**	L	**Financial**	H	**Services**	M	**Reputation**	M	**Category**	2

Phase 3 - Risk Reduction Actions				
		Action Manager	**Action by**	**Completed**
Reduction	15/361 - Engagement with services to plan with Stronger Communities interventions (ongoing)	CSD PP HoSC	Sun-30-Sep-18	
Reduction	15/372 - Further engagement with external partners (ongoing)	CSD PP HoSC	Sun-30-Sep-18	
Reduction	15/373 - Engagement with elected Members in all areas (ongoing)	CSD PP HoSC	Sun-30-Sep-18	
Reduction	15/435 - Continue to develop volunteer strategy and produce products to support and encourage volunteering (ongoing)	CSD PP HoSC	Sun-30-Sep-18	
Reduction	15/437 - Complete community directory and publicise to all stakeholders (NY Connect)	CSD PP HoSC	Tue-31-Oct-17	Wed-31-Jan-18
Reduction	15/438 - Commission development of an impact framework to enable an evaluation programme to demonstrate value and impact of stronger communities	CSD PP HoSC	Sat-30-Sep-17	Fri-30-Jun-17
Reduction	15/439 - Refine and agree outcomes framework with public health, libraries and other services (linked to 15/438 above)	CSD PP HoSC	Fri-31-Mar-17	Sun-30-Apr-17
Reduction	15/591 - Procure an independent evaluation of the SC Programme	CSD PP HoSC	Mon-30-Apr-18	
Reduction	15/592 - Employment of temporary dedicated resource for the Connected Communities project in Sleights	CSD PP HoSC	Tue-31-Oct-17	Thu-30-Nov-17

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	L	**Financial**	H	**Services**	M	**Reputation**	M	**Category**	3

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/519 - Review implementation plans and engage further with services, external partners and elected Members	CSD PP HoSC

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/166	**Risk Title**	15/166 - Organisational Performance Management	**Risk Owner**	Chief Exec	**Manager**	CD SR
Description	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			**Risk Group**	Performance	**Risk Type**	SR 32/188

Phase 2 - Current Assessment											
Current Control Measures	Corporate Performance Management Framework including a corporate performance indicator suite; quarterly reports to Exec; Policy, Strategy and Consultation Group; review of Q performance reports including deep dive reports in challenging areas; LGA corporate peer review; guidance for service plans in place; service plans in place; approval for prioritisation of BI dashboard production alongside agreed design principles; regular performance meetings across the organisation; IPM system in place Jan2018;										
Probability	M	**Objectives**	H	**Financial**	M	**Services**	H	**Reputation**	M	**Category**	2

Phase 3 - Risk Reduction Actions		Action Manager	Action by	Completed
Reduction	15/425 - Further develop a closer alignment of Council planning and MTFS	CSD HoS&P	Mon-30-Apr-18	
Reduction	15/430 - Enhance the Strategic Support service to ensure high quality and robust service and team planning	CSD HoS&P	Mon-30-Apr-18	
Reduction	15/447 - Ensure robust support from corporate Management Board for regular performance meetings within services/teams (ongoing)	CSD HoS&P	Tue-31-Jul-18	
Reduction	15/509 - Continue to work with Organisational Development on integrating performance management with the overall performance management framework	CSD HoS&P	Tue-31-Jul-18	
Reduction	15/510 - Develop a suite of corporate KPIs to underpin the Performance Management Framework to demonstrate transparency and consistency in performance management	CSD HoS&P	Mon-30-Apr-18	
Reduction	15/511 - Develop and implement a programme for performance dashboards built on risk based prioritisation and the Performance Management Framework	CSD HoS&P	Mon-31-Dec-18	
Reduction	15/555 - Revise the Performance Management Framework and obtain approval from corporate Management Board	CSD HoS&P	Tue-31-Oct-17	Sat-30-Sep-17
Reduction	15/612 - Ensure robust challenges from corporate Management Board to Strategic Support and Services in relation to performance targets(ongoing	CD SR	Tue-31-Jul-18	
Reduction	15/613 - Develop the relationships between Strategic Support and lead business partners (SRMT) on behalf of Directorates	CD SR CSD SR HoS&P	Tue-31-Jul-18	

Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	H	**Financial**	M	**Services**	M	**Reputation**	M	**Category**	3

Phase 5 - Fallback Plan	
	Action Manager

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Fallback Plan	15/518 - Fundamental review of approach	CD SR

Phase 1 - Identification									
Risk Number	15/162	**Risk Title**	15/162 - Capacity and Skills		**Risk Owner**	Chief Exec	**Manager**	CSD Mgt Team	
Description	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.				**Risk Group**	Capacity	**Risk Type**	SR 32/27	
Phase 2 - Current Assessment									
Current Control Measures			Various restructures across Central Services in order to improve resilience; mapping for required 2020NY resource in place; periodic consideration of resource gaps and one off money to fill; regular review by CSMT; regular resource papers submitted to CSMT for consideration; regular conversations around hotspots at CSMT; 2020 resources review led by PMO; savings re-profiled and included in budget/MTFS report (Feb 2018)						
Probability	H	**Objectives**	M	**Financial**	L	**Services**	M	**Reputation**	L
Category	2								

Phase 3 - Risk Reduction Actions		**Action Manager**	**Action by**	**Completed**
Reduction	15/111 - Regularly perform skills gap analysis based on current and future requirements and use to inform CS workforce training plan and monitor effectiveness	CSD Mgt Team	Fri-31-Aug-18	
Reduction	15/181 - Ongoing review of service structures to ensure fit for purpose going forward including post implementation reviews	CSD Mgt Team	Fri-31-Aug-18	
Reduction	15/448 - Ensure staff and managers are aware of opportunities to invest in initiatives to improve productivity	CSD Mgt Team	Fri-31-Aug-18	
Reduction	15/475 - Continue to prioritise and manage pressures on services on an ongoing basis	CSD Mgt Team	Fri-31-Aug-18	
Reduction	15/520 - Identify means of securing additional ICT technical capacity	CSD SR AD T&C	Sat-31-Mar-18	
Reduction	15/590 - Collate / Review and revise approach on customer feedback on quality of services	CSD Mgt Team	Fri-31-Aug-18	

Phase 4 - Post Risk Reduction Assessment											
Probability	M	**Objectives**	M	**Financial**	L	**Services**	M	**Reputation**	L	**Category**	4

Phase 5 - Fallback Plan		**Action Manager**
Fallback Plan	15/515 - Review and revise resource allocation where possible and consider additional funding and capacity where required	CSD Mgt Team

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/201	**Risk Title**	15/201 - Commercial Strategy	**Risk Owner**	Chief Exec	**Manager**	CSD Mgt Team
Description	Failure to successfully secure commercial opportunities within the Council resulting in lost net income to support budget savings, unresilient service, unskilled and insecure workforce.			**Risk Group**		**Risk Type**	

Phase 2 - Current Assessment											
Current Control Measures	NYES; Commercial Board; draft Commercial strategy approved by Commercial Board; action plan in place; initial commercial challenge sessions have taken place; website with ability of customers to buy on line; relationship managers liaise between the Heads of Traded Services and customers; Exec subcommittee and Brierley Board now established as part of governance arrangements;										
Probability	H	**Objectives**	M	**Financial**	M	**Services**	M	**Reputation**	L	**Category**	2

Phase 3 - Risk Reduction Actions				
		Action Manager	**Action by**	**Completed**
Reduction	15/208 - Collective meeting of Brierley Group to be arranged to share Vision and direction	CSD AD SR (ML)	Sat-31-Mar-18	Wed-31-Jan-18
Reduction	15/246 - Finalise Commercial Strategy and communicate to stakeholders including staff	CSD AD SR (ML)	Sat-31-Mar-18	
Reduction	15/247 - Production of Brierley Group Annual report	CSD AD SR (ML)	Mon-30-Apr-18	
Reduction	15/503 - Carry out NYES commercial challenge sessions to monitor progress against commercial targets in the Autumn and at the end of the financial year	CSD AD SR (ML)	Sat-31-Mar-18	Sun-31-Dec-17
Reduction	15/521 - Invest cash in commercial opportunities where appropriate	CSD AD SR (KI)	Sat-31-Mar-18	
Reduction	15/522 - Determine selection criteria to win bids for commercial opportunities to optimise rewards	CSD AD SR (ML)	Sat-31-Mar-18	
Reduction	15/609 - Review training on commercial and take appropriate actions	CD SR	Sat-31-Mar-18	
Reduction	15/610 - Refresh of NYes strategy and approach	CSD SR NYES Com Dir	Sat-31-Mar-18	

Phase 4 - Post Risk Reduction Assessment											
Probability	M	**Objectives**	M	**Financial**	M	**Services**	M	**Reputation**	L	**Category**	4

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/550 - Review financial position and invoke budget cuts as necessary	CSD Mgt Team

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due: **August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/180	**Risk Title**	15/180 - Customer Programme	**Risk Owner**	Chief Exec	**Manager**	CSD AD LC&CS
Description	Failure to implement a Customer Programme that meets the needs and demands of our customers and supports the necessary service redesigns, achieves savings and improves performance and customer satisfaction			**Risk Group**	Change Mgt	**Risk Type**	LC&CS 333/208

Phase 2 - Current Assessment											
Current Control Measures	Customer board with reps from each NYCC directorate and appropriate cross cutting themes; Selby Customer and Community Board; Customer working group; 2020 Customer Theme; regular updates to Programme Board; regular slots at directorate leadership team meetings; regular meetings with the directorate 2020 programme leads; Directorate project briefs relating to 2020 Customer Theme reviewed and developed within the Customer pipeline; risk log; communications plan; governance structure and arrangements in place; mechanism for resources in place;										
Probability	M	**Objectives**	M	**Financial**	M	**Services**	H	**Reputation**	M	**Category**	2

Phase 3 - Risk Reduction Actions		**Action Manager**	**Action by**	**Completed**
Reduction	15/253 - Continue to embed Customer principle into NYCC redesign of services and ensure the necessary culture change in the organisation (e.g. by attending Leadership teams, challenging Directorates and being involved in business case design stage) such that it becomes the new 'business as usual'	CSD AD LC&CS	Mon-30-Apr-18	
Reduction	15/259 - Develop and implement Corporate KPIs for Customer Programme; KPIs developed and will be rolled out over the coming months	CSD AD LC&CS CSD AD SR (ML)	Mon-30-Apr-18	
Reduction	15/515 - Continue to work through the pipeline of customer journey mapping and LEAN reviews for Service projects (approx. 20 projects per year) (ongoing	CSD AD LC&CS	Tue-31-Jul-18	
Reduction	15/516 - Finalise One-Number strategy; strategy done, website and BT directory updated;	CSD AD LC&CS	Sat-30-Sep-17	Sat-30-Sep-17
Reduction	15/517 - Work with Workforce Development to produce and deliver training to customer facing teams to enhance skills and understand their role(s); package developed and signed off, now being accessed by customer service and Library staff	CSD AD LC&CS	Mon-30-Apr-18	
Reduction	15/518 - Maintain challenge to the web / change teams to ensure they continue pace with and support for the customer programme	CSD AD LC&CS	Sat-30-Sep-17	Fri-31-Mar-17
Reduction	15/519 - Continue to work with Selby (and other Districts where appropriate) to enhance customer experience	CSD AD LC&CS	Sun-30-Sep-18	
Reduction	15/614 - Regular review of Service projects in the pipeline of customer journey mapping by Customer Programme Board (ongoing)	CSD AD LC&CS	Tue-31-Jul-18	
Reduction	333/567 - Understand and communicate any limitations to the roll out of the customer programme and principles	CSD AD LC&CS	Mon-30-Apr-18	

Phase 4 - Post Risk Reduction Assessment

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Probability	M	Objectives	M	Financial	M	Services	M	Reputation	M	Category	4

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/543 - Reprofile the plan to stage service redesign	CSD AD LC&CS

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/183	**Risk Title**	15/183 - Health & Safety	**Risk Owner**	Chief Exec	**Manager**	CD SR
Description	Major Corporate Health and Safety failure resulting in injuries, claims, reputational and service delivery impact and possible prosecution			**Risk Group**	Legislative	**Risk Type**	Corp 20/389

Phase 2 - Current Assessment									
Current Control Measures	HSRM Service Plan feeding into Directorate Action Plans; H&S team; Corporate H&S Policy; Corporate and Directorate H&S procedures; intranet and cyps.info sites; Directorate RM groups; RM Working groups; H&S Champions and lead officers; reporting on a regular basis; on-going H&S risk assessment, training, monitoring and audit; corporate H&S training; managers' and employees' online H&S training and other modules revised; health and safety function within NYCC (3rd stage) reviewed; new structure for the shared service with City of York Council agreed and implemented;								
Probability	L	**Objectives**	M	**Financial**	M	**Services**	M	**Reputation**	H
Category	3								

Phase 3 - Risk Reduction Actions				
		Action Manager	**Action by**	**Completed**
Reduction	15/248 - Continue delivery of the programme of H&S monitoring (ongoing)	CSD AD SR (AH)	Fri-31-Aug-18	
Reduction	15/249 - Implement the revised directorate H&S action plans in line with the top 10 risks agreed at CRMG and report performance on key priorities	CSD AD SR (AH)	Fri-31-Aug-18	
Reduction	15/255 - Ensure appropriate operating standards of H&S risk assessments exist and are being implemented locally (linked to 15/249 above)	CSD AD SR (AH)	Fri-31-Aug-18	
Reduction	15/257 - Review and revise the corporate H&S procedures alongside alignment with the safety management system	CSD SR HoHSRM	Fri-31-Aug-18	
Reduction	15/408 - Implement arrangements for H&S function following the agreement of the structure for shared services with City of York Council	CSD AD SR (AH)	Mon-31-Jul-17	Sat-1-Jul-17
Reduction	15/417 - Consider H&S implications of significant changes for delivery of services within the Council and factor into Directorate H&S action plans	CSD AD SR (AH)	Fri-31-Aug-18	
Reduction	15/427 - Review and revise the employees' online H&S training and other modules	CSD AD SR (AH)	Wed-31-May-17	Wed-31-May-17

Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	M	**Financial**	M	**Services**	M	**Reputation**	H	**Category**	3

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/538 - Liaise with HSE, media management, implement fatal/serious injury response guide	CSD SR HoHSRM

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification											
Risk Number	15/200	**Risk Title**	15/200 - Major Emergencies in the Community				**Risk Owner**	Chief Exec		**Manager**	Chief Exec
Description	Failure to plan, respond and recover effectively to major emergencies in the community resulting in risk to life and limb, impact on statutory responsibilities, impact on financial stability and reputation						**Risk Group**	Performance		**Risk Type**	
Phase 2 - Current Assessment											
Current Control Measures			NYLRF and RMCI; experience and resources of partners; existing plans incl public health (training and exercises); RET; partnership working with District Councils; community resilience; silver response in the County Council major incident plan tested; approach to BCP refreshed to strengthen service resilience; Resilience Direct portal; regional multi agency pandemic exercise held; effectiveness and robustness of resilience plans relating to the public health and social care of the NY population tested; NYCC action plan developed and implemented based on the debrief report recommendations and all multi agency learning (including the flood reporting tool and simplification of information flow); members of national steering group on volunteers								
Probability	L	**Objectives**	L	**Financial**	H	**Services**	L	**Reputation**	H	**Category**	3

Phase 3 - Risk Reduction Actions				
		Action Manager	**Action by**	**Completed**
Reduction	15/593 - Contribute to multi agency collaborative approach to maximising the support spontaneous and established volunteer groups provide in emergencies (ongoing)	CSD EPM	Fri-31-Aug-18	
Reduction	15/594 - Input to and engagement with national learning and development of best practice following Grenfell and attacks in London and Manchester	CSD EPM	Fri-31-Aug-18	
Reduction	20/970 - Continue to ensure effective co-ordination and communication with County and District/Borough Council services & NYLRF in light of reduction in resources (ongoing)	CSD AD PP	Fri-31-Aug-18	
Reduction	20/971 - Continue to ensure effective and efficient processes are embedded amongst all partners to prioritise workstreams (incl. plans, training and exercises) (ongoing)	CSD AD PP	Fri-31-Aug-18	

Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	L	**Financial**	H	**Services**	L	**Reputation**	M	**Category**	3

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	20/207 - Review and prioritise resources dependent on nature and impact of event (inc effective media management)	Chief Exec

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/179	**Risk Title**	15/179 - Library Service Transfer to Community Ownership	**Risk Owner**	Chief Exec	**Manager**	CSD AD LC&CS
Description	Failure to embed the new Community Libraries from 1st April 2017 resulting in impact on customer service in this and other areas, missed opportunities to strengthen communities and unmet savings targets			**Risk Group**	Partnerships	**Risk Type**	

Phase 2 - Current Assessment											
Current Control Measures	Executive agreement for revised proposals; fully integrated within Stronger Communities programme; regular meetings between library managers and delivery managers; discussions with individual elected members; meetings with local communities including town and parish councils; workshops with individual community groups taking place; identified staff support for all community libraries; dedicated hours at each community library; business plans and SLAs in place; regular meetings with management groups; regular budget monitoring; communication strategy to support the transition; annual report to Overview and Scrutiny Committee; stakeholder conference;										
Probability	L	**Objectives**	L	**Financial**	M	**Services**	H	**Reputation**	H	**Category**	3

Phase 3 - Risk Reduction Actions				
		Action Manager	**Action by**	**Completed**
Reduction	15/173 - Formalise arrangements for future delivery (SLAs)	CSD AD LC&CS	Fri-31-Mar-17	Fri-31-Mar-17
Reduction	15/365 - Take all opportunities to co-locate other services together (ongoing)	CSD AD LC&CS	Mon-30-Apr-18	
Reduction	15/366 - Ensure support and joint coordination between Stronger Communities and the Library Service in working with local communities (ongoing)	CSD AD LC&CS	Mon-30-Apr-18	
Reduction	15/830 - Launch revised Communication Strategy to implement transition (ongoing)	CSD AD LC&CS	Fri-31-Mar-17	Fri-31-Mar-17
Reduction	15/838 - Ensure adequate capacity is available within the community and also remaining workforce to deliver the service including training (ongoing)	CSD AD LC&CS	Mon-30-Apr-18	
Reduction	333/568 - Brief new Exec Member and prepare report for overview and scrutiny committee	CSD AD LC&CS	Wed-31-Jan-18	Sun-31-Dec-17
Reduction	333/569 - Host stakeholder conference; planned for 22nd November 2017	CSD AD LC&CS	Sun-31-Dec-17	Thu-30-Nov-17
Reduction	333/600 - Resolve remaining ongoing issues; eg. Property Fire Risk Assessments and Info Gov training	CSD AD LC&CS	Mon-30-Apr-18	

Phase 4 - Post Risk Reduction Assessment											
Probability	L	**Objectives**	L	**Financial**	L	**Services**	M	**Reputation**	M	**Category**	5

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/539 - Service reduction including closure of libraries where no group comes forward	CSD AD LC&CS

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/29	**Risk Title**	15/29 - Corporate Governance and Ensuring Legality	**Risk Owner**	Chief Exec	**Manager**	CSD ACE LDS
Description	Failure to ensure adequate Corporate Governance arrangements across the County Council to ensure that the Council acts lawfully in its operations and decision making resulting in inadequate control and stewardship; given the environment of greater risk taking and expansion of the types of activities the Council is now involved in resulting in challenge and non delivery of decisions, financial implications and loss of reputation particularly given service and statutory obligations			**Risk Group**	Legislative	**Risk Type**	LDS 17/6

Phase 2 - Current Assessment									
Current Control Measures	Lawyers and DSO's engage with 2020 Programme and services; delegation scheme; constitution; training; legislation monitoring and advice notes/briefings; increased monitoring of committee reports; ACE LDS on MB; Proforma for Executive Reports covering major issues; Monitoring complaints and commendation policy and system; monitoring of the Forward Plan; Democratic Services IT system; compliance with rules on access to information; Corporate Governance Officers Group; Local Code of CG; Corporate Governance Checklist; Annual Governance Statement; Statements of Assurance across the Council; Controls in Risk management, Business Continuity and Information Governance; views of external Auditors; Audit Committee in-depth consideration; LGA corporate peer review;								
Probability	M	**Objectives**	L	**Financial**	M	**Services**	M	**Reputation**	M
Category	4								

Phase 3 - Risk Reduction Actions		Action Manager	Action by	Completed
Reduction	15/57 - Continue to ensure effective monitoring of governance and operational requirements of new legislation (eg. Health Integration, Combined Authorities) and make sure services and teams are aware impact on their areas	CD SR CSD ACE LDS	Tue-31-Jul-18	
Reduction	15/251 - Continue to ensure compliance with rules on access to information	CSD ACE LDS	Tue-31-Jul-18	
Reduction	15/369 - Review decision and procedures after a successful challenge	CSD ACE LDS	Tue-31-Jul-18	
Reduction	15/370 - Ensure early legal advice is provided within the 2020 Programme which is particularly important due to diminishing resources (ongoing until 2020)	CSD ACE LDS	Tue-31-Mar-20	
Reduction	15/449 - Continue to provide governance and legal advice on key issues (eg. impact of devolution or brexit)	CD SR CSD ACE LDS	Tue-31-Jul-18	
Reduction	15/512 - Carry out review of Governance Framework in line with latest guidance	CD SR	Tue-31-Jul-18	
Reduction	15/513 - Annual Review of Corporate Governance Arrangements by Audit Committee	CD SR	Tue-31-Jul-18	
Reduction	15/824 - Continue to strengthen links with Directorates including liaison by Monitoring Officer and team with Directorates and ensure consultation on legality of major initiatives	CSD ACE LDS	Tue-31-Jul-18	
Reduction	15/825 - Ongoing monitoring of committee reports and decision making to ensure Council decision making takes account of relevant considerations including EIAs and consultation requirements	CSD ACE LDS	Tue-31-Jul-18	

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Reduction	17/502 - Ensure we provide adequate support to the new councillors to enable them to make appropriate decisions within the legislative framework					CSD ACE LDS		Tue-31-Jul-18		
Phase 4 - Post Risk Reduction Assessment										
Probability	M	**Objectives**	L	**Financial**	M	**Services**	M	**Reputation**	M	**Category** 4

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 5 - Fallback Plan		
		Action Manager
Fallback Plan	15/169 - Review failing areas in existing arrangements and plan for improvement	CSD ACE LDS

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due**: August 2018**
Report Date: **1st February 2018 (pw)**

Phase 1 - Identification							
Risk Number	15/184	**Risk Title**	15/184 - Central Services Savings Plan	**Risk Owner**	Chief Exec	**Manager**	CSD Mgt Team
Description	Failure to deliver the Central Services savings plan for the duration of the programme (up to 2019) resulting in inability to meet the budget, rationalise support services and enable the programme			**Risk Group**	Financial	**Risk Type**	

Phase 2 - Current Assessment											
Current Control Measures	CS Management Team meetings; CS 2020 Programme Manager; CS Programme updates to CSMT and Programme Board; individual project monitoring regimes with RAG status; nominated lead officers and associated governance structure; CS programme plan; business mandates; briefs and business cases as appropriate; savings re-profiled and included in budget/MTFS report (Feb 2018)										
Probability	M	**Objectives**	M	**Financial**	M	**Services**	M	**Reputation**	M	**Category**	4

Phase 3 - Risk Reduction Actions		**Action Manager**	**Action by**	**Completed**
Reduction	15/182 - Ongoing review of impact at Management Teams and overall consideration at CSMT	CD SR	Sun-30-Sep-18	
Reduction	15/183 - Periodic reviews at 2020NY Programme Board	CD SR	Sun-30-Sep-18	
Reduction	15/184 - Implementation of plans of individual projects	CSD Mgt Team	Sun-30-Sep-18	
Reduction	15/185 - Pursuit of additional income as part of commercialisation agenda	CSD Mgt Team	Sun-30-Sep-18	

Phase 4 - Post Risk Reduction Assessment											
Probability	M	**Objectives**	M	**Financial**	M	**Services**	M	**Reputation**	M	**Category**	4

Phase 5 - Fallback Plan		**Action Manager**
Fallback Plan	15/540 - Review savings plan and implement alternative savings	Chief Exec

Appendix A

Central Services Directorate

Risk Register: **month 6 (January 2018) – detailed**
Next review due: **August 2018**
Report Date: **1st February 2018 (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
◀▶	**15/11 - 2020 North Yorkshire Programme and beyond**	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	H	H	H	H	H	**1**	14	28/02/2018	M	H	H	H	M	**2**	Y	All Mgt Board
◀▶	**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**	8	31/10/2017	M	L	M	L	H	**2**	Y	CD SR
◀▶	**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**	9	31/03/2017	L	L	H	M	M	**3**	Y	CSD PP HoSC
◀▶	**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	H	M	H	M	**2**	9	31/10/2017	L	H	M	M	M	**3**	Y	CD SR
◀▶	**15/162 - Capacity and Skills**	A lack of capacity and skills within Central Services leads to a significant decline in	Chief Exec	CSD Mgt Team	H	M	L	M	L	**2**	6	31/03/2018	M	M	L	M	L	**4**	Y	CSD Mgt Team

Appendix A

Central Services Directorate

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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**
		service quality &/or insufficient progress in carrying out required developments.																		
	15/201 - Commercial Strategy	Failure to successfully secure commercial opportunities within the Council resulting in lost net income to support budget savings, unresilient service, unskilled and insecure workforce.	Chief Exec	CSD Mgt Team	H	M	M	M	L	**2**	8	31/03/2018	M	M	M	M	L	**4**	Y	CSD Mgt Team
	15/180 - Customer Programme	Failure to implement a Customer Programme that meets the needs and demands of our customers and supports the necessary service redesigns, achieves savings and improves performance and customer satisfaction	Chief Exec	CSD AD LC&CS	M	M	M	H	M	**2**	9	30/09/2017	M	M	M	M	M	**4**	Y	CSD AD LC&CS
	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**	7	31/05/2017	L	M	M	M	H	**3**	Y	CSD SR HoHSRM
	15/200 - Major Emergencies in the Community	Failure to plan, respond and recover effectively to major emergencies in the community resulting in risk to life and limb, impact on statutory responsibilities, impact on financial stability and reputation	Chief Exec	Chief Exec	L	L	H	L	H	**3**	4	31/08/2018	L	L	H	L	M	**3**	Y	Chief Exec
	15/179 - Library Service Transfer to Community Ownership	Failure to embed the new Community Libraries from 1st April 2017 resulting in impact on customer service in this and other areas, missed opportunities to strengthen communities and unmet savings targets	Chief Exec	CSD AD LC&CS	L	L	M	H	H	**3**	8	31/03/2017	L	L	L	M	M	**5**	Y	CSD AD LC&CS
	15/29 - Corporate Governance and Ensuring Legality	Failure to ensure adequate Corporate Governance arrangements across the County Council to ensure that the Council acts lawfully in its operations and decision making resulting in inadequate control and stewardship; given the environment of greater risk taking and expansion of the	Chief Exec	CSD ACE LDS	M	L	M	M	M	**4**	10	31/07/2018	M	L	M	M	M	**4**	Y	CSD ACE LDS

Appendix A

Central Services Directorate

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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
		types of activities the Council is now involved in resulting in challenge and non delivery of decisions, financial implications and loss of reputation particularly given service and statutory obligations																		
◀▶	**15/184 - Central Services Savings Plan**	Failure to deliver the Central Services savings plan for the duration of the programme (up to 2019) resulting in inability to meet the budget, rationalise support services and enable the programme	Chief Exec	CSD Mgt Team	M	M	M	M	M	**4**	4	31/07/2018	M	M	M	M	M	**4**	Y	Chief Exec

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

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 MARCH 2018

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 2017/18 to date.

1.2 To consider the outcome of the Annual Fraud Risk Assessment and the adequacy of the counter fraud policy framework.

2.0 BACKGROUND

2.1 In the current economic climate, all organisations are at an increased risk of fraud and corruption. The true cost of fraud is difficult to quantify but the most recent fraud indicator report[1] suggests that annual UK fraud could be £190 billion. Public sector fraud accounts for £40.4 billion of this total of which approximately £7.8 billion is committed against local government. Every £1 lost to fraud in local government is £1 which is not available to support communities. The main types of local government fraud continue to be housing tenancy, council tax/NNDR, procurement, social care and 'internal' fraud. The recent CIPFA annual fraud and corruption tracker identified adult social care as a significant growth area in terms of the number of investigations conducted. CIPFA also highlighted the lack of specialist resources within local government to tackle fraud with only 38% of councils who responded to the survey having access to a dedicated counter fraud team. A copy of the CIPFA Fraud Tracker 2017 report is attached as **Appendix 1** for information.

2.2 Reduced resources mean that local authorities have less capacity to investigate suspected fraud or to undertake proactive counter fraud activities. In addition, responsibility for benefit fraud investigation transferred from local authorities to the Department for Work and Pensions in 2015/16. Many local authorities lost their in-house expertise and no longer have access to qualified and experienced fraud investigators. Whilst Veritau maintains a corporate fraud team, outside London only a limited number of councils have such arrangements in place.

[1] University of Portsmouth//Experian/CCW – Annual Fraud Indicator Report 2017

2.3 Fraudsters are also adapting their methods and looking for new opportunities to perpetrate fraud. Local authorities are increasing being targeted by organised criminals, including individuals and groups based outside the UK. Cross boundary fraud is also an increasing problem, particularly in the larger cities. This is at a time when the wider public sector is facing budget reductions, undergoing significant transformational change and increasing demand for services.

2.4 In the last few years there has also been a significant increase in cyber attacks directed at the public sector - recent high profile examples include WannaCry, which affected the NHS and Parliament (WannaCry is a form of ransomware that encrypts system data and demands payment to unlock it). Cyber attacks on local government can result in an inability to provide key services as well as the theft of sensitive data. The National Cyber Security Centre (NCSC) was established in 2016 to provide guidance and expertise in this area. As part of its response to the cyber attacks experienced in May 2017, the NCSC is promoting its national Cyber Aware campaign. The campaign encourages organisations to adopt good cyber security habits such as ensuring that operating systems and software are regularly updated.

2.5 The government recently published a new United Kingdom Anti-Corruption Strategy (2017-2022). The Strategy sets out a framework for tackling corruption. The framework is intended to reduce the threat to the UK's national security, increase prosperity and improve public confidence. The Strategy aims to reduce the risk of corruption, improve transparency and increase citizen confidence and trust in public sector services irrespective of whether those services are delivered in-house or by contractors / the voluntary sector. For local government, the objective is to develop '*a strengthened, risk-based response to fraud and corruption......which makes better use of data and transparency, thereby enhancing public confidence in the integrity of our democratic institutions'*. The specific actions include encouragement to local government to work with the Department for Work and Pensions (DWP) on joint fraud investigations, the piloting of measures to verify the identity of electors, improved protections for whistleblowers and greater use of the new tool developed by the Competition and Markets Authority (CMA) to detect possible bid rigging.

2.6 The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations (MLR 2017) came into force in June 2017. The new regulations put greater responsibility on organisations to mitigate the risks associated with money laundering by ensuring appropriate policies and risk assessments are in place. Whilst not specifically covered by the regulations, local authorities have a broad responsibility to be aware of the potential for money laundering and criminality in their management of public funds.

2.7 The County Council has a good record in maintaining standards of probity and propriety. However, it is also essential that its arrangements for reducing the risk of loss from fraud and corruption remain effective. As a consequence the policy framework is kept under review and updated to reflect best practice as required.

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 guidance contained in the CIPFA Code of Practice on Managing the Risks of Fraud and Corruption. In addition, a new Fraud Prosecution and Loss Recovery policy, setting out the measures that can be taken to recover fraud losses, was approved. A revised Whistleblowing Policy was also approved in March 2016. The related guidance for managers was similarly updated. A new updated national strategy for local government '*Fighting Fraud and Corruption Locally'* is expected to be published this year. In the meantime, no further changes to the existing Counter Fraud Strategy and the related fraud policies are considered necessary.

3.3 The Anti Money Laundering Policy was reviewed and updated in March 2017. The Policy is now being reviewed again to reflect the new Money Laundering Regulations. Plans are also in place to complete a new money laundering and terrorist financing risk assessment and to roll-out an e-learning course targeted at those services considered to be most at risk. The updated Anti Money Laundering Policy will be presented to this Committee for approval once the current consultation process is concluded.

4.0 INVESTIGATIONS UNDERTAKEN IN 2017/18

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 2017/18 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 2017/18 Annual Fraud Risk Assessment exercise.

6.0 RECOMMENDATIONS

Members are asked to:

6.1 note the investigations carried out by Veritau in 2017/18 to date, and the outcome of the annual Fraud Risk Assessment.

6.2 note the planned update to the County Council's Anti Money Laundering Policy and the measures being adopted to strengthen the current anti money laundering arrangements.

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.

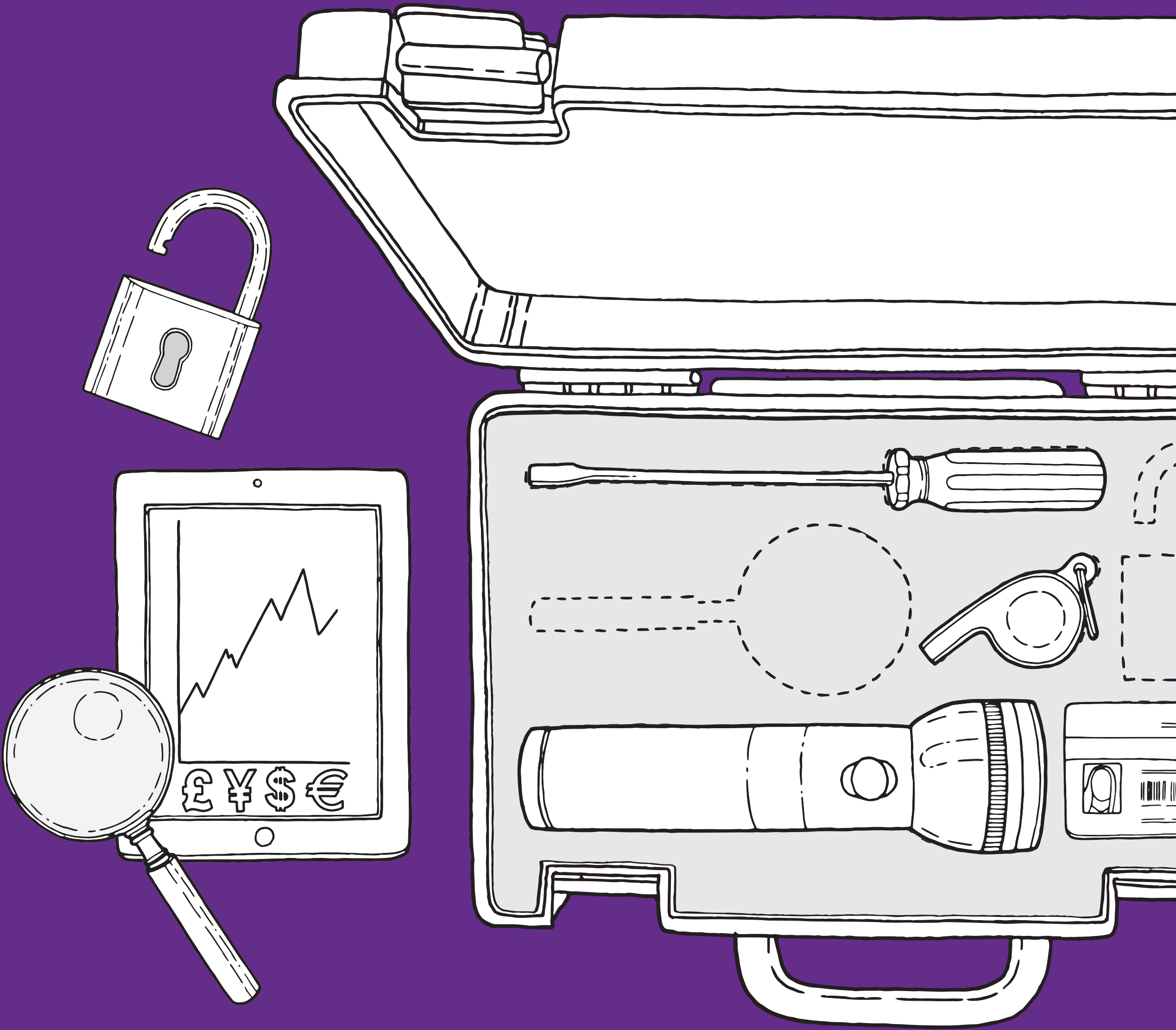
County Hall
Northallerton

13 February 2018

CIPFA The Chartered Institute of Public Finance & Accountancy

fraud and corruption tracker

Summary Report 2017



CIPFA COUNTER FRAUD CENTRE

Contents

Foreword

Public sector organisations around the UK are clearly committed to fighting fraud and corruption. Through the implementation of initiatives and collaboration with new partners, the public sector understands the importance of counter fraud activity and the contribution it makes to organisations' resilience. The success of counter fraud activities is more than about saving money but covers both the reputational and moral risk for an organisation.

The CIPFA Fraud and Corruption Tracker (CFaCT) survey is part of that story and provides a picture of fraudulent activity in local government and identifies actions that are being taken to combat it.

Supported by organisations such as the National Audit Office (NAO), the National Crime Agency (NCA) and the Local Government Association (LGA), CIPFA draws on the expertise of those within the profession to deliver this annual survey which enables practitioners to focus on trends and emerging risks.

Understanding emerging risks allows authorities to develop appropriate strategies and deploy adequate resources to support the fight against fraud and corruption. This year's survey has shown that adult social care fraud has evolved from an emerging risk to one with which many local authorities are now actively engaged.

This report, which summarises the findings of the most recent CFaCT, not only raises awareness of fraud prevention, detection and deterrence across local government, but will also enable organisations from across the wider public sector to benchmark their responsiveness against others facing similar risks.

This report will:

- help organisations understand where fraud losses could be occurring
- provide a guide to the value of detected and prevented fraud loss
- help senior leaders understand the value of counter fraud activity
- assist operational staff to develop pro-active counter fraud plans.

The survey was supported by:

NAO National Audit Office

NCA National Crime Agency

Local Government Association

The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC), launched in July 2014, was created to fill the gap in the UK counter fraud arena following the closure of the National Fraud Authority (NFA) and the Audit Commission, and the subsequent transfer of benefit investigations to the Single Fraud Investigation Service (SFIS), run by the Department for Work and Pensions (DWP). The CCFC leads and co-ordinates the fight against fraud and corruption across public services by providing a one-stop-shop for thought leadership, counter fraud tools, resources and training.

CIPFA **COUNTER FRAUD** CENTRE

Introduction

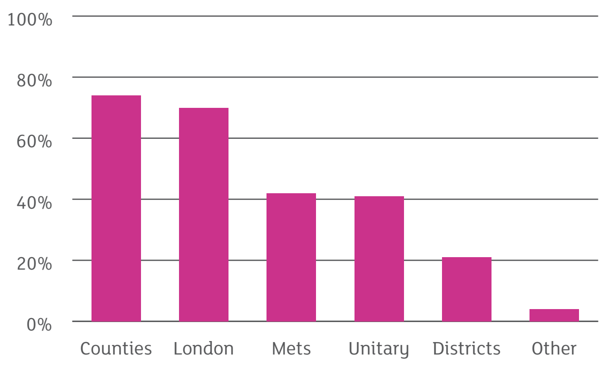
CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the Annual Fraud Indicator 2013, which provides the last set of government sanctioned estimates, fraud costs the public sector at least £20.6bn annually and of this total, £2.1bn is specifically in local government.

Fraud continues to pose a major financial threat to local authorities and working with partners such as the LGA and the Home Office, we are seeing an emerging picture of resilience and innovation within a sector that is aware of the difficulties it faces and is finding solutions to the challenges.

The third CFaCT was carried out in May 2017 and provides a national picture of fraud, bribery and corruption in local government. It also shows how the sector is dealing with the challenges and helps identify the actions that the sector needs to take to reduce the threat posed by fraudulent activity.

The CFaCT draws on the experience of practitioners and the support and expertise of key stakeholders to show the changing shape of the fraud landscape. It received a spread of results from across all regions and local authorities, enabling us to estimate the total figures for fraud across English, Welsh and Scottish local authorities.

Response Rate

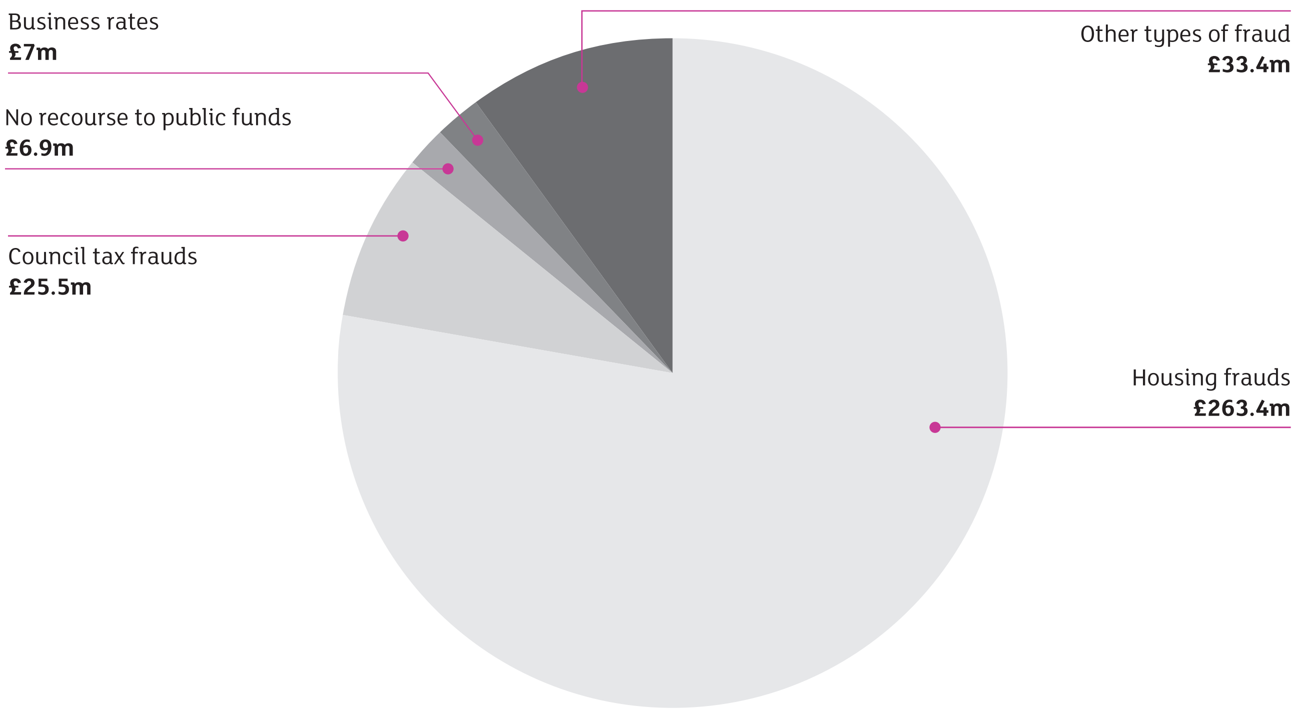


CIPFA estimates that across local authorities more than 75,000 frauds have been detected or prevented in 2016/17 with a total value of £336.2m. The number of fraud cases investigated or prevented dropped in 2017, but the average value per fraud increased from £3,400 to £4,500; the reason for this could be that local authorities are focusing on cases with a higher financial value.

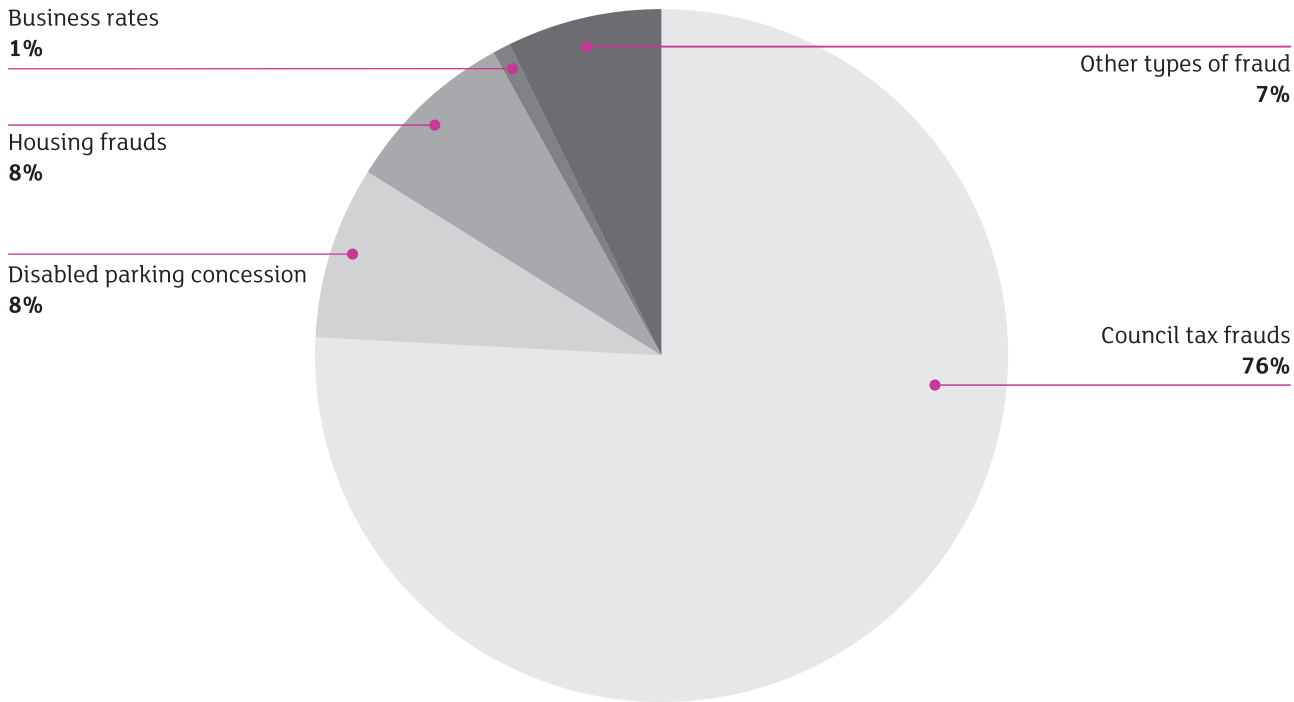
The CFaCT also revealed the following:

- procurement, adult social care and council tax single person discount are perceived as the three greatest fraud risk areas
- adult social care fraud has shown the largest growth in the past year, with an estimated £5.6m investigated compared with £3.0m in 2016
- the highest number of investigations related to council tax fraud (76%) with a value of £25.5m
- the highest value area of fraud is housing with an estimated total of £263.4m
- 38% of organisations who responded have a dedicated counter fraud service.

Estimated value of fraud detected



Detected fraud by estimated volume



Cyber crime has a high profile in the media and poses a growing challenge to a sector becoming more digital in terms of service delivery. The threat calls on the shared expertise of fraud and IT teams and it is often unclear who holds responsibility. Respondents to the CFaCT 2017 reported that only three fraud teams (2.3%) were responsible for cyber risk, whereas 106 (80%) reported that IT or the chief information officer held responsibility.

When we started the survey in 2014, three quarters of respondents told us that cyber risk was not included in the corporate plan. This year we see that over half the respondents had carried out a cyber risk assessment in the previous 12 months.

A number of themes and challenges have emerged over the three years that CIPFA has carried out this survey, and these include the following:

- housing has the highest value of all fraud types
- council tax fraud has seen the highest volume of cases
- local authorities benefit from looking forward, preparing for and understanding emerging risks in order to find effective solutions
- barriers to effective data sharing have consistently been stated as impacting on fraud prevention and investigation
- insufficient capacity and a lack of effective fraud risk assessment have proved to be challenges.

In the past three years fraud teams have operated within increasingly restricted budgets while the frauds they look to uncover become more sophisticated. From the figures and responses in the report, fraud teams are responding with positivity and a professional commitment to these challenges. The CFaCT shows that the sector is focusing on certain fraud areas, combining skills and resources and developing shared services.

This report highlights:

- the types of fraud as identified in the CFaCT 2017
- how the fraud and corruption landscape is changing
- what monetary value is lost through fraudulent activity
- how counter fraud activity and prevention improves the public sector budget
- what threats and risks are emerging
- what is being done to prevent fraud.

Recommendations

CIPFA recommends that organisations:

- ensure that cyber security is integral to any new strategy or policy decision, reflecting the National Cyber Security Strategy 2016 to 2021
- continue to be vigilant and raise awareness of fraud within adult social care
- have a strong counter fraud leadership that understands the importance of involving counter fraud practitioners when devising policy and strategy
- continue to maximise opportunities to share data and to explore innovative use of data within the law
- communicate clearly both internally and externally the role of the fraud team and the importance of the role for both financial and reputational benefit.

Main Types of Fraud

CIPFA has identified the main types of fraud based on the volume of investigations or the value of the financial loss. According to the survey results there are four main areas:

1. council tax
2. housing
3. disabled parking (Blue Badge)
4. adult social care.

Council tax

Council tax fraud has always been the largest reported issue and this is the same in 2017. Council tax is levied on domestic properties and collected by district and unitary authorities in England and Wales and levying authorities in Scotland. As the revenue forms part of the income for local authorities, there is a clear correlation between council tax fraud and a reduction in the available budget.

Council tax fraud is split into three areas:

1. council tax single person discount (SPD) – eg where the council tax payer falsely claims to be an eligible single occupier
2. council tax reduction (CTR) support – eg where the council tax payer falsifies household income to qualify for support
3. other types of council tax fraud – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

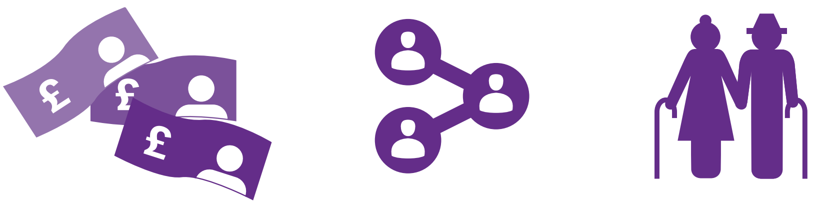
Traditionally an area of high volume/low value, council tax represents the highest number of fraud cases reported by local authorities (76%). However, the total value of the fraud, estimated at £25.5m, only accounts for 7.6% of the estimated value of all detected fraud.

Estimated council tax fraud

	Volume	Value
SPD	50,136	£19.5m
CTR	6,326	£4.8m
Other	674	£1.1m
Total	**57,136**	**£25.5m**

When asked about the perceived highest fraud risk areas, SPD was third behind procurement and adult social care.

Perceived highest risk areas



3 Single person discount

2 Procurement

1 Adult social care

Housing and tenancy fraud

Housing and tenancy fraud takes a number of forms including:

- illegal subletting for profit
- providing false information to gain a tenancy
- wrongful tenancy assignment and succession
- failing to use the property as the principal home
- right to buy fraud, for example where circumstances have been misrepresented to qualify for a discount.

Housing is expensive in many parts of the country, the South East in particular, and therefore a low number of cases produces a high value in terms of fraud. However, councils record the income lost to housing fraud according to different values, ranging from a notional cost of replacing a property to the average cost for keeping a family in bed and breakfast accommodation for a year. The National Fraud Initiative (NFI) has historically used a figure of £18,000 to reflect the cost of homeless accommodation over one year, however, this year the NFI has increased that notional figure to £93,000.

The lack of a standard approach makes valuing housing fraud difficult and the approaches vary not only between regions but also between councils. To give some idea of the growth in this area this report has taken the cases reported over the last two years and estimated a figure for all local authorities. Using this methodology, the estimated total value of housing fraud is £263.4m. The number of cases of right to buy fraud has fallen since the 2016 survey but the value has risen to £112m.

Right to buy is the scheme that allows tenants who have lived in their properties for a qualifying period the right to purchase the property at a discount. As housing has become increasingly expensive, especially in London, the value of this type of fraud has seen a rapid increase. The loss is higher in London than in other parts of the country, with an average value per case of £97,000 against £81,000 for the rest of the UK.

Estimated housing fraud

Type of fraud	Volume	Value
Right to buy	1,284	£111.6m
Illegal subletting	1,829	£78.5m
Other*	2,825	£73.3m
Total	**5,938**	**£263.4m**

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

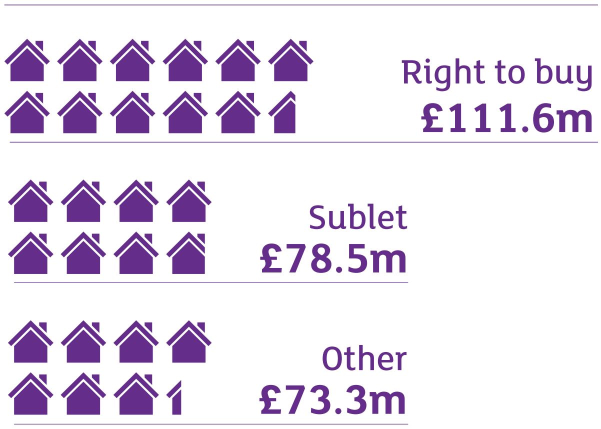
1,284

the estimated number of right to buy cases investigated or prevented during 2016/17

£263.4m

the estimated total value of housing fraud investigated during 2016/17

Estimated housing fraud



Disabled parking (Blue Badge)

The Blue Badge is a Europe-wide permit scheme that gives parking concessions to people with sight impairments or severe walking difficulties. It is locally administered and allows permit holders to park nearer to their destination. Fraud from the misuse of the Blue Badge has decreased since we started the survey. In 2015/16 the estimated number of cases was 7,078, and in 2016/17 this decreased dramatically to 5,751.

There is no standard way to calculate the value of this type of fraud and some authorities, for example in London, place a higher value on the loss than others and invest in more counter fraud resource.

The cost of parking in London results in a higher value to case ratio. From the survey responses we estimate a total of 1,396 cases for London authorities with a total loss value of £3.0m, whereas the estimate for the rest of the UK is 4,355 cases with a total value less than half that of London at £1.4m.

In the event that Blue Badge misuse is identified, it is often prosecuted and the individual is fined (which is paid to the court). Costs are awarded to the prosecuting authority but these may not meet the full cost of the investigation and prosecution. It is possible that because costs may not be fully redeemed, authorities have little incentive to focus attention on this fraud type. Prosecution, where successful, may serve as a warning and a reflection of public interest.

Estimated Blue Badge fraud

Volume	Value
5,751	£4.3m

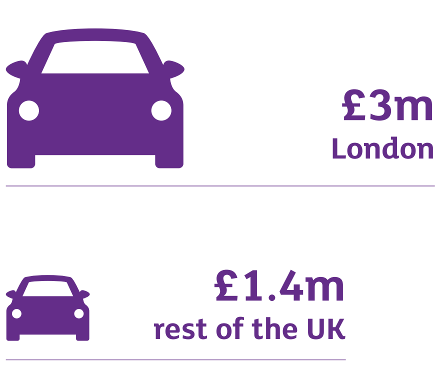
Blue Badge prosecution

After an investigation by Warrington Borough Council's counter fraud team, the council prosecuted a resident for using a Blue Badge which did not belong to him, and had in fact expired, to park in designated disabled parking spaces.

The court fined the man £69 in respect of four offences, charged him a victim surcharge of £30, £120 in penalty charge notices and ordered him to pay £100 in court costs.

This case illustrates that any money returned to the council would not be sufficient to cover the investigation and prosecution costs, but taking the case to court would serve to raise awareness and potentially deter others.

Value of Blue Badge fraud in London v rest of UK



Adult social care

There has been a rise in the number of fraud cases identified in adult social care and the value of the loss has started to increase. This is a trend that we have seen emerging over the last few surveys. In 2015/16 the average value of loss specifically for adult social care was below £10,000 but in 2016/17 we see a rise in value to around £13,000.

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

Investigations cover cases where:

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

Over the past few years many local authorities have funded training and introduced robust controls to mitigate the risk of fraud within personal budgets.

This year's survey also highlighted the links between adult social care fraud and insider fraud. Five percent of adult social care frauds investigated by respondents involved an authority employee.

Estimated adult social care fraud

Type of fraud	Volume	Value
Adult social care personal budget	264	£2.8m
Adult social care (other)*	182	£2.8m
Total	**446**	**£5.6m**

*Other includes internal fraud or identity fraud.

Fraud by abuse of position

The counter fraud team at Essex County Council was contacted by a social worker who, after conducting a routine monitoring review, considered that the service user (Ms B) may be paying a relative living at the same address to provide support for her care needs. This had not been agreed by the service area, and was contrary to council policy on employment of personal assistants.

The team identified that Ms B, who was also a social worker employed by the council, had not been paying a carer for many years. Ms B had been receiving direct payments to cover care needs since 2002 and had submitted quarterly returns to evidence spend but this had stopped in 2007, despite being chased. At interview, Ms B advised that she had not spent the direct payment since 2007 but would not provide bank statements to evidence this. Payments from Essex County Council from April 2007 to the date of the suspension amounted to nearly £47,000.

Ms B had just sold her house and was in the process of buying another property. A cheque was returned to the council for £46,887.90.

Ms B was dismissed from the council following disciplinary procedures and the case was referred to the Health Care and Professions Council (HCPC). An HCPC hearing resulted in a caution being placed on her registration for three years.

The case was also referred to Essex Police, who confirmed that Ms B had regularly used the direct payment as her personal monies. As a result Ms B was charged with theft of £46,887.90 and pleaded guilty to the charge. She received a suspended 16 month sentence, costs of £340 and a six month curfew.

Other Types of Fraud

Fraud covers a substantial number of areas and within organisations these vary in importance. This part of the report looks at the responses to some of these that did not appear as major types of fraud within the national picture but are important to individual organisations. Our results looked at the following fraud types in this category:

- business rates
- insurance
- procurement
- welfare assistance and no recourse to public funds
- payroll, expenses, recruitment and pensions
- economic and voluntary sector (grant fraud)
- manipulation of data (financial or non-financial) and mandate fraud.

Business rates

Business rates have received considerable publicity and are a key cost for those who have to pay the tax. There is also the political sensitivity felt by politicians wanting to maximise an environment for economic growth and business development.

Business rate fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to differentiate between evasion and avoidance. Business rate fraud can include the falsification of circumstances to gain exemptions and discounts.

Business rates represented 0.5% of the total number of frauds reported in 2015/16 and had risen to 0.9% in 2016/17. The estimated total value of the fraud loss has increased from £4.8m in 2015/16 to £7.0m in 2016/17.

Estimated business rate fraud

Volume	Value
662	£7.0m

Insurance fraud

This fraud includes any false insurance claim made against an organisation or an organisation's insurers. Within the insurance fraud category, there were six cases of organised crime.

Authorities should ensure that counter fraud measures within their own insurance claims processes are fit for purpose and that there is a clear route for investigation into alleged frauds.

The total estimated value of loss in 2016/17 is £5.1m – a decrease from £7.0m in 2015/16. The number of frauds detected or prevented fell but the average value increased to £13,800.

Considerable work has been done in the area of insurance fraud and insurance companies are working with organisations to develop new ways to identify fraud and abuse within the system.

Estimated insurance claim fraud

Volume	Value
371	£5.1m

Procurement fraud

Procurement fraud can occur throughout the procurement cycle, from purchasing through to the service delivered and payments. In last year's survey procurement was perceived as one of the greatest fraud risks, with housing procurement being of particular concern. The number of procurement fraud cases reported in 2015/16 was five times more than in 2014/15.

In 2016/17 there were an estimated 197 prevented or detected frauds with an estimated value of £6.2m, compared with 427 cases in 2015/16 with a total value of £5.7m; this drop in the number of cases but increase in value could indicate that higher level frauds are being discovered. However, procurement fraud takes place in a constantly changing environment and can occur anywhere throughout the procurement cycle. There can be sizeable difficulties in measuring the value of procurement fraud since it is seldom the total value of the contract but an element of the contract involved. The value of the loss, especially post award, can be as hard to measure but equally significant.

Estimates suggest that nearly 40% of all fraud committed against local authorities concerns abuse of the procurement cycle.[1] The London Borough of Hackney's innovative approach to this problem was to create a multifaceted and specialist procurement team within the audit and anti-fraud division. This has allowed the authority to carry out complex and often lengthy investigations which have resulted in cost savings as well as greater assurance across the organisation.

The Fighting Fraud and Corruption Locally Strategy 2016–2019 recommends that organisations create a procurement fraud map and define the stages at which procurement fraud can happen in a local authority. This would highlight low, medium and high potential risks and inform risk awareness training for the future.

The Competition and Markets Authority (CMA) is working with the public sector to identify areas of higher risk within procurement. The CMA has produced a free online tool that studies the data fed in against bidder behaviour and price patterns. It then flags areas where fraud **could** be a possibility and should be investigated.

Estimated procurement fraud

Volume	Value
197	£6.2m

For more information see also Managing the Risk of Procurement Fraud (CIPFA/LGA, 2015).

Welfare assistance and no recourse to public funds

Local welfare assistance was set up to help the poorest residents to deal with short-term costs caused by fire, flood or injury. The assistance is not a statutory duty and with money being limited many authorities have cut the service dramatically or dropped it completely. Awards are discretionary and may come as either a crisis payment or some form of support payment.

In 2016, the estimated number of cases was 610 but this has declined in the past year to an estimated 103.

While 'no recourse to public funds' fraud presents a significant fraud risk to local authorities, it is primarily to be found in London, southeast England and larger metropolitan boroughs. London had 90% of reported cases in this year's survey. This type of fraud includes claimants using false documents to obtain benefits.

Over the past 12 months the number of cases in this area has increased, rising from 255 in 2015/16 to 342 in 2016/17. However, the average value of the fraud has fallen to £20,000, resulting in an overall decrease in total loss from £8.2m to £6.9m.

Estimated fraud in welfare assistance and no recourse to public funds

Type of fraud	Volume	Value
Welfare assistance	103	£0.3m
No recourse to public funds	342	£6.9m

No recourse to public funds

342
Number of cases

£20,000
Average value

1 www.local.gov.uk/sites/default/files/documents/managing-risk-procurement-13a.pdf

Economic and voluntary sector (grant fraud)

This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation. As funds become more limited for this type of support it is even more important for fraud teams to be aware of the risks within this area.

Although only 17 actual cases of grant fraud were reported in the 2017 survey, the average value of loss was £39,000 per fraud.

Payroll, expenses, recruitment and pensions

If we combine all the estimated results for these four areas the total value of the fraud loss is an estimated £2.1m.

It can be very difficult, however, to measure the cost of these frauds because the implications for some do not necessarily carry a monetary value, such as reputational damage or investigating the motives behind the fraud. As a result some organisations can be less keen to investigate or report investigations in these areas.

Employees and those working inside an authority can abuse council processes for financial gain. Respondents reported that 40% of payroll fraud cases investigated or prevented during the year involved insider fraud.

Recruitment fraud is an interesting area and often one where it is difficult to establish a value of fraud loss. It would be impossible to put a price on the damage that could be inflicted on an organisation if it were to employ a member of staff who had falsified their qualifications. Without a strong risk assessment and additional investigation, an appointment may be made that would have considerable adverse implications.

Estimated payroll, expenses, recruitment and pension fraud

Type of fraud	Volume	Value
Payroll	248	£1.0m
Expenses	75	£0.1m
Recruitment	46	£0.2m
Pension	228	£0.8m
Total	**597**	**£2.1m**

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

The fraud most commonly carried out within the manipulation of data category relates to employees changing data in order to show a better performance than actually occurred or staff taking data from the organisation.

Action Fraud states that:

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

CIPFA estimates that across the UK manipulation of data fraud has more than doubled from 24 in 2015/16 to 57 in 2016/17. Mandate fraud has also increased from 188 in 2015/16 to 325 in 2016/17.

Procedures must be in place to ensure that staff are aware of this type of fraud and act accordingly by checking information. Advice from organisations such as Action Fraud can help to ensure that the risk is reduced, but from the results of our survey organisations are clearly still experiencing loss. Removing data may not result in financial loss but can result in reputational damage. Mandate fraud may also not be reported because of reputational repercussions.

40%

of payroll cases involved insider fraud

90%

the percentage of respondents who have a counter fraud plan in place

Serious and organised crime

This year's survey again included a question (requested by the Home Office) on serious and organised crime in order to help establish how it is being tackled by local authorities.

Organised crime groups are often involved in complicated and large-scale fraudulent activities which cross more than one boundary. Such activities demand considerable resources to investigate and require organisations to co-operate in order to successfully bring criminals to justice.

The CFaCT 2017 identified 26 cases of serious and organised crime, and the responses indicate that organisations share a great deal of data both internally and externally. In addition, of the organisations that responded, 23% identified serious and organised crime risks within their organisation's risk register.

91%

the percentage of respondents who share data externally

Whistleblowing

Whistleblowing was strongly evidenced again this year, with 60% of organisations surveyed saying that they annually reviewed their whistleblowing arrangements in line with the PAS 1998:2008 Whistleblowing Arrangements Code of Practice.

Of those questioned 85% confirmed that staff and the public had access to a helpdesk and 72% said that the helpline conformed to the PAS 1998:2008.

Respondents reported a total of 686 whistleblowing cases, made in line with PAS 1998:2008. This represents disclosures in all areas, not just with regard to suspected fraudulent behaviours. Effective whistleblowing allows staff or the public to raise concerns about a criminal offence, miscarriage of justice or dangers to health and safety in a structured and defined way. It can enable teams to uncover significant frauds that may otherwise have gone undiscovered. Organisations should therefore ensure that whistleblowing processes are reviewed regularly.

Counter Fraud Resources

Increased delivery with reduced resources is the context in which fraud teams are operating. It is therefore unsurprising that the proportion using a shared service has increased from 10% to 14%. This approach has gained popularity in some areas as a method of allowing smaller organisations to provide a service that is both resilient and cost effective.

For those organisations that are not opting to run shared services, the CFaCT 2017 showed a flatlining of counter fraud staff resources until 2019. This position would appear to be a change of intention from 2015, when some respondents had hoped to increase their staff numbers. We did however see a slight increase in the number of organisations which have qualified financial investigators available in-house, from 27% in 2016 to 34% in 2017, but fraud services continue to be stretched.

While it is not essential for all organisations to have a dedicated counter fraud function, CIPFA continues to reinforce the importance of organisations having a fraud response plan that enables allegations of fraud to be investigated effectively by skilled and professional investigators.

Hertfordshire shared counter fraud service

In 2015, six councils in Hertfordshire, including the county council, established a shared service to improve the prevention of fraud and corruption. At the centre of the plan was the requirement to have a more robust and resilient service where data was exchanged and best practice shared. The commercial nature of the service also required a return on investment and the opportunity to create new income streams.

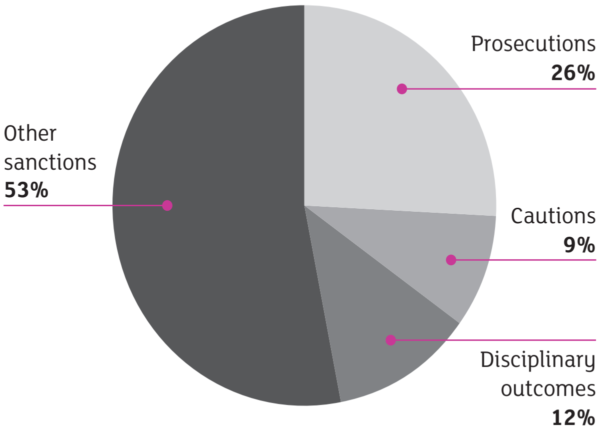
The combined service has provided flexibility and a significant return on investment for those involved, and the reduction in duplication across common policy approaches has resulted in a more efficient use of resources.

Sanctions

The CFaCT 2017 allows us to explore the sanctions being used and indicates the following:

- 614 prosecutions were completed in 2016/17, and of the prosecutions, 22 involved insider fraud – all 22 cases were found guilty
- there was an average of four prosecutions per survey respondent
- the share of other sanctions used increased from 45% to 53% from 2016 to 2017
- the share of cautions as a proportion of all sanctions dropped from 22% to 9% between 2016 and 2017.

Outcome of sanctions



The chart indicates that:

- prosecutions include both in-house and CPS prosecutions
- cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to do so in that instance
- disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team disciplinary action is undertaken, or where a subject resigns during the disciplinary process
- other sanctions include the imposition of fines or other penalties by the organisation.

Fighting Fraud and Corruption Locally

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

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

As in previous surveys, the FFCL Board put forward specific statements to be included to help measure the effectiveness of the initiatives in the strategy and the responses are reflected in the diagram below. The more confident respondants are about the way fraud is dealt with in their organisation the higher they marked the statement, low scores are at the centre of the diagram.

Counter fraud controls by country

Over the past three years, local authorities have identified capacity, data sharing and fraud risk management as issues that need to be addressed in order to effectively tackle fraud and corruption. The FFCL's 34-point checklist is a good starting point as it provides a comprehensive framework to address these concerns.

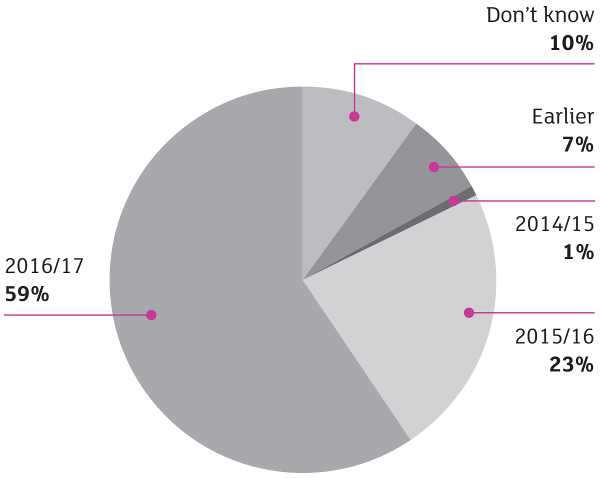
The FFCL Strategy recommends that:

There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.

By producing a plan and having resources that are agreed by the leadership team, management is able to see gaps in capacity and identify areas of risk which enables them to make effective strategic decisions.

In fact, an area of improvement has been the rise in organisations that have a counter fraud and corruption plan. Last year, 11% did not have a plan or did not know if they had one, and only 62% had the plan approved in the last 12 months. Of those who responded to this year's survey, 90% have a counter fraud and corruption plan in place (10% did not know) and 74% had carried out a corporate fraud assessment in the last 12 months. Some respondents reported that an assessment was pending.

When did you last have your counter fraud and corruption plan approved?



Acknowledgements

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- FFCL board
- Gary Coote, London Borough of Hillingdon
- Home Office
- Kate Bridge, Competition and Markets Authority
- Luan Quirke, Wirral Council
- Local Government Association
- Nick Jennings, Hertfordshire County Council
- Patrick Saunders-Wright, London Borough of Hackney
- Peter Tanton, Essex County Council
- Public Concern at Work
- Solace

Appendix 1: Estimates and Fraud Types

The table below shows the types of fraud reported in the survey, the estimated number of cases reported during 2016/17 and an estimate of the total value of these fraud cases. The methodology used in the estimation is described in Appendix 2.

Types of fraud	Fraud cases	Value	Average
Council tax	57,136	£25.5m	£400
Housing	5,939	£263.4m	£44,300
Disabled parking concession (Blue Badge)	5,751	£4.3m	£800
Business rates	662	£7.0m	£10,600
Adult social care	446	£5.6m	£12,500
Insurance claims	371	£5.1m	£13,800
No recourse to public funds	342	£6.9m	£20,200
Mandate	325	£1.7m	£5,200
Schools (excluding transport)	258	£0.5m	£2,000
Payroll	248	£1.0m	£4,100
Pensions	228	£0.8m	£3,400
Procurement	197	£6.2m	£31,300
Debt	142	£0.3m	£2,400
Welfare assistance	103	£0.3m	£3,000
Expenses	75	£0.1m	£1,900
Children's social care	59	£0.8m	£13,800
Manipulation of data	57	na	na
Recruitment	46	£0.2m	£3,700
Economic and voluntary sector support	39	£1.5m	£38,800
School transport	19	£0.2m	£12,300
Investments	0	£0.0m	na
Other	2,768	£4.7m	£1,700
Total	**75,212**	**£336.2m**	**£4,500**

Appendix 2: Research Methodology

This year's CFaCT results are based on responses from 133 English, Welsh and Scottish local authorities. With this response rate, we are able to calculate an estimated total volume and value of fraud for all local authorities in England, Wales and Scotland.

For all non-responding authorities, missing values are calculated according to the size of the authority. For each type of fraud, an appropriate measure of authority size applicable to that authority has been selected. For example, local authority housing stock is used as the basis for the estimation of housing frauds. From the responses, the number of cases per unit of the size measure is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value.

As an illustration, if the number of housing frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000, then the total estimated value of fraud for that authority is £1.0m. The figures that are presented in this report are estimated according to this methodology. The 2015/16 estimates have also been restated for the purpose of comparison.

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2017/10

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 MARCH 2018

CORPORATE GOVERNANCE

Report of the Corporate Director, Strategic Resources

1.0 PURPOSE OF REPORT

1.1 To review the updated Local Code of Corporate Governance and recommend for collective approval by the Chief Executive, the Leader of the Council, the Executive Member for Central Services, the Corporate Director Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services).

2.0 BACKGROUND

2.1 Previously, the Framework Delivering Good Governance in Local Government, published by CIPFA in association with SOLACE in 2007, set out the standard for local authority governance in the UK. CIPFA/SOLACE carried out a review of this Framework and Guidance during the last year and has consequently published an updated version called the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016.

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

(i) to assess the effectiveness of the authority’s Corporate Governance arrangements

(ii) to review progress on the implementation of Corporate Governance arrangements throughout the authority

(iii) to approve the Annual Governance Statements for both the County Council and the North Yorkshire Pension Fund

(iv) to liaise, as necessary, with the Standards Committee on any matter(s) relating to the Codes of Conduct for both Members and Officers

(v) to review the arrangements in place for ensuring good governance in the County Council’s key partnerships and owned companies.

2.3 In relation to (i) and (ii) above, reports are submitted at regular intervals during the year as set out in the Programme of Work and item (iii) is considered as part of the report relating to the Statement of Accounts. Issues are addressed by the respective Corporate Director alongside a report on internal audit work relating to that Directorate which is produced by the Head of Internal Audit.

3.0 LOCAL CODE OF CORPORATE GOVERNANCE

3.1 Following publication of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016 last year, the Council carried out a review of the changes as a consequence of this Framework, and updated their compliance documentation including the Local Code and the Annual Governance Statement.

Framework Principles

3.2 The 2016 Principles that are reflected in the Local Code with links to the Annual Governance Statement are as follows:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;

B. Ensuring openness and comprehensive stakeholder engagement;

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;

D. Determining the interventions necessary to optimise the achievement of the intended outcomes;

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;

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

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

To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in this Framework.

Changes and Updates to the Local Code

3.3 The Local Code of Corporate Governance for the County Council is a statement of the principles that the County Council will apply in its corporate governance framework. It also describes key components of that framework and how they will be monitored and reviewed.

3.4 The Local Code is reviewed on an annual basis. This review ensures that key changes to the corporate governance framework (whether driven by external forces such as legislative changes or by internal factors) are reflected in the current Local Code.

3.5 This year's review has resulted in minor changes and updates to the Local Code. Links to other documents on the County Council's website have been inserted into the text of the Local Code in line with good practice. And for example, an additional protocol has been included relating to the role of the Leader and Chief Executive Officer in the ethical framework (*see Local Code Principle A paragraph 4.1*) as well as reference to the General Data Protection Regulation which comes into force in May 2018 (*see Local Code Principle F paragraph 4.6*). The revised Code can be seen at **Appendix A.**

3.6 Once approved by the Committee at this meeting, the Local Code will be referred collectively to the Chief Executive, the Leader of the Council, the Executive Member for Central Services, the Corporate Director Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services) for formal approval, as stated in the Constitution.

4.0 RECOMMENDATIONS

4.1 That the updated Local Code of Corporate Governance (**Appendix A**) be recommended for collective formal approval by the Chief Executive, the Leader of the Council, the Executive Member for Central Services, the Corporate Director Strategic Resources and the Assistant Chief Executive (Legal and Democratic Services).

GARY FIELDING
Corporate Director, Strategic Resources, County Hall, Northallerton
March 2018

Report prepared by Fiona Sowerby, Corporate Risk and Insurance Manager, ext 2400

Background papers: None

DRAFT

Local Code of Corporate Governance

March 2018

4

Contents

1.0 **INTRODUCTION**

1.1 Corporate governance is the system by which a local authority directs and controls its functions and relates to the community it serves. It is therefore a framework of policies, management systems, procedures and structures that together, determine and control the way in which a local authority manages its business, determines its strategies and objectives, and sets about delivering its services to meet those objectives for the greater good of its community. This naturally extends to how the organisation accounts to, engages with and, where appropriate, leads its community.

1.2 On this basis, the principles of good corporate governance require a local authority to undertake its functions in a way that is completely open and inclusive of all sectors of the community, demonstrates the utmost integrity in all its dealings, and is fully accountable to the public it serves.

1.3 North Yorkshire County Council is committed to demonstrating good corporate governance. This Code sets out what the governance arrangements are, and who is responsible for them within the County Council. It also explains how the arrangements will be kept under review and monitored for compliance.

1.4 The Code also expresses how the County Council will seek to conduct its business in a way that demonstrates –

- **Openness and Inclusivity** – which is necessary to ensure that stakeholders can have confidence in the decision-making and management processes of the County Council, and the role of the Members and Officers therein. Being open through genuine consultation with stakeholders and providing access to full, accurate and clear information leads to effective and timely action and lends itself to necessary scrutiny. Openness also requires an inclusive approach, which seeks to ensure that all stakeholders, and potential stakeholders, have the opportunity to engage effectively with the decision-making processes and actions of the County Council. It requires an outward looking perspective and a commitment to partnership working, that encourages innovative approaches to consultation and to service provision

- **Integrity** – is necessary for trust in decision making and actions. It is based upon honesty, selflessness and objectivity, and high standards of propriety and probity in the stewardship of public funds and the management of the County Council’s affairs. It is dependent on the effectiveness of the internal control framework and on the personal standards and professionalism of both Members and Officers. It is reflected in the County Council’s decision-making procedures, in its service delivery and in the quality of its financial and performance reporting

- **Accountability** - is the process whereby Members and Officers within the County Council are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles expressed through a robust and resilient structure

2.0 **POLICY STATEMENT ON CORPORATE GOVERNANCE**

2.1 The Policy of the County Council is to incorporate the principles of Corporate Governance into all aspects of its business activities to ensure that stakeholders can have confidence in the decision-making and management processes of the authority, and in the conduct and professionalism of its Members, Officers and agents in delivering services. To this end, the County Council will report annually on its intentions, performance and financial position, as well as on the arrangements in place to ensure good governance is always exercised and maintained.

2.2 The principles set out in this Policy will also apply to the North Yorkshire Pension Fund. Any company in which the County Council has a substantive equity holding will also be expected to comply with these principles.

3.0 **THE SEVEN PRINCIPLES OF CORPORATE GOVERNANCE**

3.1 There are seven core principles that should underpin governance arrangements within a local authority. These are defined as follows –

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
B. Ensuring openness and comprehensive stakeholder engagement
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
D. Determining the interventions necessary to optimise the achievement of the intended outcomes
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
F. Managing risks and performance through robust internal control and strong public financial management
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

3.2 This Code addresses these seven core principles and describes the systems and processes that support these in the County Council. In addition the Code reflects how the County Council addresses the requirements of the CIPFA Statement on the *Role of the Chief Financial Officer in Local Government* (2015)

3.3 The Code also explains how the County Council intends to monitor and review the corporate governance arrangements defined in this Code including compliance with the CIPFA Statement on the *Role of the Chief Financial Officer in Local Government* (2015).

3.4 A diagrammatic representation of how this Code fits into the management process of the County Council is attached as **Appendix A**.

4.0 **CORPORATE GOVERNANCE ARRANGEMENTS**

Core Principle A : Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

4.1 The County Council will conduct its activities in a manner which promotes high ethical standards and good behaviour which will foster openness, support and mutual respect. The following policies and protocols have been established and will be kept under review to assist the County Council in maintaining this culture:–

- Member and Officer Codes of Conduct
- Local / National Teachers' Code of Conduct
- Protocol on Officer/Member relations and communications
- Code of Conduct for Planning
- Ethical Behaviour Statements
  - Leader
  - Chief Executive
- Protocol re the role of the Leader and Chief Executive Officer in the ethical framework
- Ethical Standards & Decision Making Training for Officers and Members
- Member and Officer Registers of Interests
- Member and Officer Registers of Gifts and Hospitality
- ICT Code of Practice and Protocols on ICT use for Members and Officers
- Whistleblowing Policy
- Counter Fraud Strategy
- Anti-Money Laundering and Terrorist Financing Policy
- Equality and Diversity Policy Statement
- Communication Strategy to support 2020 North Yorkshire
- Engagement Promise
- Partnership Governance guidance
- Procurement Strategy and training
- Information Governance Policy and Framework
- Corporate Complaints Procedure
- Guidance Note for Councillors and Officers on Outside Bodies

4.2 In addition, the County Council will ensure that systems and processes for financial administration, financial control and protection of the authority's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice. This includes compliance with CIPFA's Statement on the *Role of the Chief Financial Officer in Local Government* (2015).

4.3 The aim is to develop a set of shared values which will underpin an ethos of good governance. This will be further supported by compliance with legislation, Procedure Rules and all relevant professional standards.

4.4 The County Council has established a Standards Committee to discharge its responsibilities for promoting and maintaining high standards of Member conduct. The Standards Committee meets twice yearly and as required. It develops initiatives to promote high ethical standards, is involved in ensuring the training of all Members on standards, and determines any complaints that Members may have breached the Members' Code of Conduct referred to it by the Monitoring Officer. The Committee also has a role in assisting, where requested, in the designation and handling of persistent and/or vexatious complaints/complainants.

4.5 Where the County Council works in partnership it will continue to uphold its own ethical standards, as well as acting in accordance with the partnership's shared values and aspirations.

Core Principle B : Ensuring openness and comprehensive stakeholder engagement

4.6 The County Council will seek the views of its stakeholders and respond appropriately by:–

- clearly identifying its stakeholders, in order to ensure that relationships with these groups continue to be effective
- maintaining effective channels of communication which reach all groups within the community and other stakeholders as well as offering a range of consultation methods; to this end the County Council has a Communications Strategy to support the 2020 North Yorkshire Programme and an Engagement Promise that are regularly reviewed and updated
- publishing a Council Plan and an annual Statement of Final Accounts to inform stakeholders and services users of the previous year's achievements and outcomes
- publishing a Medium Term Financial Strategy and consulting each year on the Annual Revenue Budget and its impact on Council Tax
- providing a variety of opportunities for the public to engage effectively with the County Council including attending meetings, opportunity to ask questions at meetings, written consultations, surveys, web chats with Leader and Chief Executive
- presenting itself in an open and accessible manner to ensure that County Council matters are dealt with transparently, in so far as the need for confidentiality allows
- supporting these shared principles and the undertakings in the North Yorkshire Compact which provides a framework for local authorities and other public bodies to work together with the voluntary and community sector maintaining a Citizens' Panel of around 2000 residents who are consulted twice a year on a wide range of service issues
- maintaining a Freedom of Information Act Publication Scheme and arrangements to respond to requests for information from the public

- operating Access to Information Procedure Rules to ensure local people and stakeholders can exercise their rights to express an opinion on decisions, and can understand what decisions have been made and why
- ensuring the lawful and correct treatment of personal information through a Data Protection policy that follows the principles set out in the *Data Protection Act 1998* (and the *General Data Protection Regulation from May 2018*)
- maintaining a County Council website that provides access to information and services and opportunities for public engagement

Core Principle C : Defining outcomes in terms of sustainable economic, social, and environmental benefits

4.7 The County Council will develop a clear vision and purpose, identify intended outcomes and ensure that these are clearly communicated to all stakeholders of the organisation, both internal and external. In doing so, the County Council will report regularly on its activities and achievements, and its financial position and performance.

4.8 The County Council will publish:-

- a Council Plan (updated annually)
- an annual Statement of Final Accounts together with the Annual Governance Statement

4.9 The County Council will keep its corporate strategies, objectives and priorities under constant review, so as to ensure that they remain relevant to the needs and aspirations of the community.

4.10 In undertaking all its activities, the County Council will aim to deliver high quality services which meet the needs of service users. Delivery may be made directly, via a subsidiary company, in partnership with other organisations, or by a commissioning arrangement. Measurement of service quality will also be a key feature of service delivery.

4.11 In addition, the County Council will continue to monitor the cost effectiveness and efficiency of its service delivery, as well as

- ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the County Council meets its policy and service objectives and provides effective stewardship of public money in its use

- ensure that the County Council maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary

- ensure compliance with CIPFA's Code on Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code

4.12The County Council will monitor and regularly report on performance through the Performance Management Framework and system

4.13The County Council will also seek to address any concerns or failings in service delivery by adhering to and promoting its Corporate Complaints Procedure.

Core Principle D : Determining the interventions necessary to optimise the achievement of the intended outcome

4.14The County Council will observe this Principle through a combination of the following:

- having a formal Constitution which details the decision making processes and the procedures required to support the transparency and accountability of decisions made
- carrying out consultations to ensure a robust decision making process for service improvement or termination or otherwise, in order to prioritise competing demands within limited resources
- publishing a Council Plan which provides the key ambitions for the Council, key strategies, high level outcomes and priorities for the next 4 years
- publishing an annual Statement of Final Accounts including an Annual Governance Statement to inform stakeholders and services users of the previous year's achievements and improvements for the following year
- establishing a medium term business and financial planning process to deliver strategic objectives which is reviewed regularly
- maintaining an effective Performance Management Strategy and system
- having a Staff Engagement Strategy
- having a Communications Strategy to support the 2020 North Yorkshire Programme

Core Principle E : Developing the entity's capacity, including the capability of its leadership and the individuals within it

4.15 The County Council is continually seeking to develop the capacity and capability of the Council itself, and both its Members and Officers in recognition that the people who direct and control the organisation must have the right skills. This is achieved through a commitment to training and development, as well as recruiting senior officers with the appropriate balance of knowledge and experience. The County Council aims to achieve this by:-

- carrying out a regular LGA Peer Review
- maintaining Partnership Governance procedures and guidance, and carrying out regular reviews of partnerships and their outcomes
- organising Member and employee induction programmes
- continuing with further organisational development under the 2020 North Yorkshire Programme by promoting the 3 core elements of engagement, innovation and leadership

- maintaining an effective Performance Management Strategy and system
- continuing to develop a Workforce Plan that addresses issues such as recruitment, succession planning, flexible working and other people management issues
- carrying out regular appraisals which incorporate service improvement and personal development plans
- providing career structures to encourage staff development
- regularly reviewing job descriptions and person specifications and using these as the basis for recruitment
- encouraging a wide variety of individuals and organisations to participate in the work of the County Council
- ensuring regular review and improvement of the Employee Assistance Programme which includes health assessments, counselling, emotional support and fitness advice.

4.16 To ensure compliance with the CIPFA Statement in the *Role of the Chief Financial Officer* the County Council will:-

- ensure the CFO has the skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of his role
- review the scope of the CFO's other management responsibilities to ensure financial matters are not compromised
- provide the finance function with the resources, expertise and systems necessary to perform its role effectively
- embed financial competencies in person specifications and appraisals
- ensure that Members' roles and responsibilities for monitoring financial performance / budget management are clear, that they have adequate access to financial skills and are provided with appropriate financial training on an ongoing basis to help them discharge their responsibilities

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

4.17 The County Council observes this Principle through a combination of the following:

- a Risk Management Policy and Strategy have been in place for many years and are reviewed and updated in line with current guidance and best practice on a regular basis
- there is a reporting and monitoring framework for communicating risks (eg Corporate Risk Management Group / Directorate Risk Management Group / Mgt teams)
- decision making is supported through risk registers at Corporate, Directorate and Service levels as well as one off major projects

- Risk Registers include consideration of objectives and contribute to service plans
- there is a Corporate Performance Management Strategy and system
- the Executive is supported at all times by professional advice that addresses all relevant legal, financial, risk and resourcing issues. Risk management processes operate so as to ensure that the risk and impact of decisions are fully assessed
- there are regular quarterly Performance / Financial reports to Executive & Scrutiny Board
- there is a year-end report on Performance / Financial out-turn to Executive & Scrutiny Board
- there is comprehensive recording of all decisions taken and the reasons for those decisions
- there is an effective scrutiny function and framework, supported by named officers, that enables decisions by the Executive to be challenged or influenced by the rest of the County Council's Members
- there is compliance with the *Code of Practice on Managing the Risk of Fraud and Corruption* (CIPFA 2014) through a Counter Fraud Policy and Strategy including a Fraud Prosecution Policy, and an Anti-Money Laundering Policy and Procedures
- there is an Annual Governance Statement which is updated and forms part of the annual Statement of Final Accounts
- the Audit Committee includes independent co-opted members
- there is an Information Governance policy framework which ensures compliance with data protection and access to information legislation and best practice
- an Information Sharing Protocol and individual agreements are active with many partners
- there is an Audit Charter with an adequately resourced internal audit and counter fraud function
- ensures that its governance arrangements allow the CFO direct access to the Audit Committee and External Auditor
- ensures the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the County Council
- ensures the County Council's governance arrangements allow the CFO to bring influence to bear on all material decisions
- ensures that advice is provided on the levels of reserves and balances in line with good practice guidance
- the County Council's arrangements for financial and internal control and for managing risk are addressed in annual governance reports by Corporate Directors

- the County Council puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes

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

4.18 The County Council observes this Principle through a combination of the following:-

- maintaining a County Council website that provides access to information and services and opportunities for public engagement
- all meetings of the Council and its Committees are open to the public (except where, for example, personal or confidential matters are being discussed) and published on the website
- having a formal Constitution which details the decision making processes and the procedures required to support the transparency and accountability of decisions made
- an Engagement Promise setting out in simple terms how everyone who lives or works in the county, or uses the County Council's services can influence decisions
- a properly constituted Standards Committee, an Audit Committee with a number of independent co-opted members and an effective scrutiny function
- there is an Audit Charter with an adequately resourced internal audit and counter fraud function
- ensure that its governance arrangements allow the CFO direct access to the Audit Committee and External Auditor
- ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the authority
- ensure the County Council's governance arrangements allow the CFO to bring influence to bear on all material decisions
- ensure that advice is provided on the levels of reserves and balances in line with good practice guidance
- ensuring the County Council puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes
- ensuring the County Council's arrangements for financial and internal control and for managing risk are addressed in annual governance reports by Corporate Directors
- publishing an annual Statement of Final Accounts together with the Annual Governance Statement which will show any significant improvements required.
- ensuring compliance with *CIPFA's Statement on the Role of the Head of Internal Audit* (2010)

- ensuring compliance with Public Sector Internal Audit Standards
- considering and implementing LGA Peer Review recommendations
- completion of Equality Impact Assessments/Data Protection Impact Assessments for any proposed changes in service delivery

5.0 MONITORING, REPORTING AND REVIEW

5.1 Ensuring good corporate governance is the responsibility of the whole Council. However to formalise the process, the County Council has two Committees that are primarily responsible for monitoring and reviewing the adequacy of the corporate governance arrangements referred to in this Local Code –

- the Audit Committee
- the Standards Committee

The two committees liaise on any issue of Corporate Governance that may be of legitimate common concern to both.

5.2 The Audit Committee is independent of both the Executive and Scrutiny, and has wide ranging responsibilities in relation to audit, information governance, counter fraud, risk management, treasury management, financial and performance reporting, as well as overall corporate governance. The Committee's terms of reference are set out in the Constitution and its principal objectives are to ensure that the County Council manages its risks appropriately and maintains an adequate and effective system of internal control. The Committee meets up to five times a year and includes up to three co-opted external Members.

5.3 The Standards Committee currently meets twice yearly and as required to promote and maintain high standards of conduct by Councillors and co-opted Members of the Council. The Committee provides advice and support to the Council and its members on the Council's Members' Code of Conduct and related ethical issues such as membership of outside bodies and Member/officer relations. Additionally, Standards Committee Members participate in training sessions and the Committee determines any complaints that Members may have breached the Members' Code of Conduct referred to it by the Monitoring Officer. The Committee also has a role in assisting, where requested, in the designation and handling of persistent and/or vexatious complaints/complainants. The Committee is attended by independent persons, as well as County Council Members.

5.4 Further to the two Committees referred to above, the County Council has also established:

- a Corporate Governance Officer Group of senior officers, chaired by the Corporate Director – Strategic Resources, which is responsible for overseeing the delivery of an integrated programme of work to support the development of robust corporate governance arrangements, and to keep implementation of such arrangements under on-going review. In particular, this Group monitors the Self-Assessment Checklist that maps, and monitors, all governance activity within the County Council against all published Best Practice Guidelines

- a Corporate Information Governance Group, also chaired by the Corporate Director – Strategic Resources. This Group addresses the various challenges of Information Governance including the development and maintenance of a Framework for Information Governance which comprises a suite of relevant policies, protocols and guidance notes

5.5 The County Council is required to undertake an annual review of the effectiveness of its system of internal control (as required by *Regulation 6 of the Accounts and Audit Regulations* (2015). This review seeks to –

- identify principal risks to the achievement of County Council objectives
- identify and evaluate key controls to manage principal risks
- obtain assurances of the effectiveness of key controls
- evaluate assurances and identify gaps in control/assurances

This review is overseen by the Audit Committee and is part of the preparatory process for the Annual Governance Statement (see **paragraph 5.8** below). The Audit Committee receives assurance from various sources regarding the adequacy of the internal control environment and overall corporate governance arrangements, including from the Head of Internal Audit.

5.6 Additionally, compliance with the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* is reviewed annually by the Audit Committee.

5.7 Finally, annual reports are produced and published by:

- the Audit Committee Chair
- the Standards Committee Chair

The Annual Governance Statement

5.8 Following the annual review of effectiveness of the system of internal control an Annual Governance Statement (AGS) will be published to accompany the Statement of Final Accounts for the County Council. The AGS will provide an overall assessment of the corporate governance arrangements in the County Council.

5.9 To reflect the County Council's commitment to the continuous improvement of its system of internal control, progress to address weaknesses is drawn up in response to any significant control weaknesses identified in the AGS. A follow up process is then overseen by the Corporate Governance Officer Group to ensure continuous improvement of the system of corporate governance. The Audit Committee monitors progress to address weaknesses every six months.

Review of this Code

5.10 A review of this Code will be undertaken annually alongside the preparation of the AGS.

6.0 **CONTACT DETAILS AND FURTHER INFORMATION**

6.1 Further details of the County Council's Corporate Governance arrangements can be obtained on the County Council's website www.northyorks.gov.uk or by contacting the Corporate Director – Strategic Resources (**see below**).

6.2 Finally, if you have any concerns about the way in which the County Council, its Members, Officers or agents conduct its business, or believe that elements of this Code are not being complied with, please contact one of the following Officers as appropriate. Your enquiry will be treated confidentially, and a response made following investigation of the facts in each case.

(i) **Chief Executive (Head of Paid Service)**
Richard Flinton
North Yorkshire County Council
County Hall
Northallerton
North Yorkshire DL7 8AL
Tel: 01609 532444 E-mail: richard.flinton@northyorks.gov.uk

(ii) **Corporate Director – Strategic Resources (Section 151 Officer)**
Gary Fielding
Corporate Director – Strategic Resources
North Yorkshire County Council
Racecourse Lane
Northallerton
North Yorkshire DL7 8AL
Tel 01609 533304 E-mail gary.fielding@northyorks.gov.uk

(iii) **Assistant Chief Executive (Legal and Democratic Services) (Monitoring Officer)**
Barry Khan
Legal and Democratic Services
North Yorkshire County Council
Racecourse Lane
Northallerton DL7 8AL
Tel 01609 532173 E-mail barry.khan@northyorks.gov.uk

APPENDIX A

CORPORATE GOVERNANCE

ANNUAL GOVERNANCE STATEMENT

Ongoing Monitoring and Annual Review

LOCAL CODE OF CORPORATE GOVERNANCE

Standards Committee

Audit Committee

Corporate Governance Officer Group

Principle A.
Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- A.1.1 Acting in the public interest and protecting our reputation
- A.1.2 Establishing and communicating our values
- A.1.3 Leading by example and using our values as a framework for decision making
- A.1.4 & A.2.3 Embedding values and ethical standards in our policies
- A.2.1 & A.2.2 Ethical standards and performance are maintained and permeate our culture and operation
- A.2.4 Ensuring external providers of our services act ethically and with integrity
- A.3.1 Demonstrating a strong commitment to the rule of law
- A.3.2 Ensuring statutory officers and members are able to fulfil their legislative and regulatory responsibilities
- A.3.3 Optimizing the full use of powers for the benefit of citizens and communities
- A.3.4 & A.3.5 Dealing effectively with breaches of legal and regulatory provision, corruption and misuse of power

Principle B
Ensuring openness and comprehensive stakeholder engagement

- B.1.1 Demonstrating our commitment to openness
- B.1.2 & B.1.3 Making open decisions with clear reasoning and evidence.
- B.1.4 Using consultation to determine effective courses of action
- B.2.1 Engaging effectively with institutional stakeholders
- B.2.2 & B.2.3 Developing partnerships built on trust and shared values to allow efficient use of resources
- B.3.1 Establishing a clear policy on the type of issues that we will consult upon
- B.3.2 Ensuring effective communication and clarity on the role of members and officers with regard to community engagement
- B.3.3 Ensuring consideration is given to the views of those from different backgrounds and to future needs
- B.3.4 Implementing effective feedback mechanisms
- B.3.5 Balancing feedback from more active stakeholder groups with that of others
- B.3.6 Taking account of the interests of future generations, tax payers & service users

Principle C
Defining outcomes in terms of sustainable economic, social, and environmental benefits

- C.1.1 Having a clear vision
- C.1.2 Specifying intended impacts and changes
- C.1.3 Delivering outcomes sustainably within available resources
- C.1.4 Identifying and managing risks to the achievement of outcomes
- C.1.5 Managing service user expectations
- C.2.1 & C.2.3 Considering the economic, social and environmental impact of service provision and the associated wider public interest
- C.2.2 Taking a longer term view with regard to decision making
- C.2.4 Ensuring fair access to services

Principle D
Determining the interventions necessary to optimise the achievement of the intended outcomes

- D.1.1 Ensuring decision makers consider full options appraisals
- D.1.2 Considering feedback in decision making on service improvement or removal
- D.2.1 Working to robust planning and control cycles
- D.2.2 Engaging with all stakeholders on service planning and delivery
- D.2.3 Considering and monitoring risk in partnerships
- D.2.4 Ensuring flexible & agile arrangements are in place
- D.2.5 Establishing key performance indicators for service performance measurement.
- D.2.6 Ensuring sufficient capacity to review service quality
- D.2.7 & D.2.8 Preparing budgets in accordance with plans, strategies and realistic expenditure estimates.
- D.3.1 & D.3.3 Ensuring the MTFS balances priorities with affordability and sets the context for on-going decision making
- D.3.2 Ensuring budgets take into account the medium and long term cost of operations
- D.3.4 Ensuring the achievement of social value

Principle E
Developing the entity's capacity, including the capability of its leadership & the individuals within it

- E.1.1 & E.1.2 Regularly reviewing & benchmarking operations, performance and use of assets
- E.1.3 Recognising the benefits of partnerships and collaborative working
- E.1.4 Maintaining an effective workforce plan
- E.2.1 Ensuring elected & appointed leaders talk with each other
- E.2.2 Specifying delegable and non delegable decisions
- E.2.3 Clearly defining Leader and CEO roles
- E.2.4 Developing the capabilities of members and officers
- E.2.5 Encouraging public participation
- E.2.6 Considering leadership effectiveness
- E.2.7 Reviewing staff performance
- E.2.8 Maintaining workforce health and wellbeing

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

- F.1.1, F.1.2 & F.1.3 Recognising risk management as an integral part of activities and implementing arrangements, ensuring responsibilities are understood
- F.2.1, F.2.4 & F.2.5 Monitoring & reporting on all aspects of service delivery including post implementation reviews
- F.2.2 Making decisions based on objective analysis & clear understanding of the risks
- F.2.3 & F.3.5 Operating an effective overview and scrutiny function and audit committee
- F.3.1 & F.3.2 Evaluating risk management & internal control and ensuring alignment with objectives
- F.3.3 Ensuring effective counter fraud & anti-corruption arrangements
- F.3.4 Obtaining Internal audit assurance on governance
- F.4.1, F.4.2 & F.4.3 Ensuring robust data governance arrangements are in place
- F.5.1 & F.5.2 Ensuring strong financial management arrangements are in place

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

- G.1.1 & G.1.2 Communicating with stakeholders in an understandable and transparent way
- G.2.1 & G.2.2 Reporting on performance & value for money and ensuring members and senior managers own the results
- G.2.3 Publishing an Annual Governance Statement
- G.2.4, G.3.4 & G.3.5 Ensure audit and governance are applied to partnerships, shared services and those provided by third parties
- G.2.5 Preparing consistent performance information to accompany financial statements
- G.3.1 & G.3.2 Ensuring effective internal and external audit
- G.3.3 Welcoming peer challenge & inspection

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

1 March 2018

INFORMATION GOVERNANCE – PROGRESS REPORT

Report of the Corporate Director – Strategic Resources

1.0 PURPOSE OF THE REPORT

1.1 To update Members on a range of current Information Governance issues.

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

2.0 BACKGROUND

2.1 Information governance is a holistic approach to managing and protecting corporate information by implementing processes, roles, controls and metrics that treat information as a valuable business asset.

2.2 The County Council has adopted a comprehensive policy framework covering all aspects of information governance. Significant work has been undertaken since then in order to raise awareness of requirements and to ensure compliance. Information is a key asset for the Council (like money, property, or the skills of its staff) and must be protected accordingly.

2.3 Much has been achieved in this area but there is a continuing need to embed a culture of sound information governance, particularly in relation to information security. If this is realised then information can be used even more powerfully by the Council, and partners, to improve decision making and to reduce the financial and reputational risks.

2.4 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

2.5 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 despite the Council's actions to mitigate those risks.

3.0 INFORMATION SECURITY

Information Security Compliance Checks (security sweeps)

3.1 Last year (2016/17) Veritau carried out 6 information security compliance checks, of which 5 resulted in only Limited Assurance. So far in 2017/18, Veritau has completed 9 compliance checks (covering both County Hall and other establishments). Six of the reports have been finalised with two ranked as High Assurance, three Reasonable Assurance and one Limited Assurance.

3.2 Whilst there has been a noticeable improvement in some areas (for example Employment Support Services) sensitive and personal information is still not being secured properly in many offices throughout the Council. The programme of information security compliance checks will therefore continue.

3.3 Non-compliance is brought to the attention of the relevant managers promptly and remedial action is taken as necessary. Reports are also made to the Corporate Information Governance Group (CIGG) and Directorate Information Governance Champions (DIGC). Information security is also discussed at management teams.

Breaches

3.4 The number of reported data security incidents in each quarter since April 2016 is as follows.

Year	Quarter	Red	Amber	Green	Total
2016/17	Q1	4	29	12	45
	Q2	0	11	20	31
	Q3	0	8	13	21
	Q4	1	15	5	21
2017/18	Q1	3	14	5	22
	Q2	0	18	6	24
	Q3	3	10	10	23

Green incidents are unlikely to result in harm but indicate a breach of procedure or policy; Amber incidents represent actual disclosure, but harm is unlikely to be serious; and Red incidents are sufficiently serious to be considered for self-reporting to ICO.

3.5 The overall trend is down over the period, although three red incidents in the latest quarter is disappointing. The majority of incidents are “human error” lapses. A series of visits to team meetings, by managers from Veritau and Technology and Change has been completed. This was to increase awareness of the need for attention to detail and the avoidance of such mistakes.

Recent Information Commissioner's Office Case

3.6 Only one security incident has been reported to the ICO in the last twelve months. A social worker had left her lap-top and paper files in the boot of her car when it was stolen. The risk was that sensitive casework, including details of offences allegedly committed, was in the hands of criminals, who might realise its significance. Following a Veritau audit investigation, the Council explained to the ICO how appropriate training and instruction had been given to the social worker and other staff, and how its policy framework and disciplinary procedures were appropriate and reasonable measures. The ICO agreed and closed the case with no regulatory action to be taken. Although the laptop and case notes have not been recovered, there has been no report of further incident.

4.0 PHISHING EXERCISES

4.1 As with any organisation the Council is under constant threat of cyber-attack and one of the most common is a phishing attack (phishing is the attempt to obtain sensitive information such as usernames, passwords, and credit card details (and sometimes, indirectly, money), often for malicious reasons, by masquerading as a trustworthy entity in an electronic communication.).

4.2 The Technology and Change service (T&C service) have systems in place to reduce the number of these phishing emails that get into your email inbox, over 400,000 a month are stopped at the perimeter. The number of attacks are increasing and the methods used constantly changing. Although every effort is made to secure the perimeter we can't stop them all and staff become the last line of defence in ensuring the network isn't compromised.

4.3 The processes we have put in place have proved very effective and to measure this we ran a number of controlled phishing exercises to see the response to the email if we did not carry out our normal processes and instead leave the email in everyone's inbox. These exercises have no security impact on the network.

4.4 Over the initial exercises we found that between 10% and 15% of staff would provide their user id and password. However with an increased awareness campaign and running the exercise a number of times we are seeing these figures reduce.

4.5 We will continue to support these exercises with new training material and regular awareness articles on the intranet along with key messages to highlight the importance of the correct staff responses to phishing emails and how to recognise them.

5.0 DATA GOVERNANCE TEAM AND DIRECTORATE INFORMATION GOVERNANCE CHAMPIONS (DIGCs) - ROLES AND RESPONSIBILITIES

5.1 The Data Governance Team has met with all current DIGCs within the Council and has documented their current remits to understand the role and responsibilities that have previously been carried out by the DIGCs. These responsibilities include:

- To provide a point of contact with Senior Management, Directorate staff and Veritau for all information governance issues.
- To coordinate the investigation of any security incident/breach within the directorate with responsible officers to ensure investigations are conducted in

an efficient and standard manner and that all stakeholders are briefed accordingly.

- To provide regular management information updates on breaches/mitigations along with analysis reports.

These responsibilities have moved to the Data Governance Team with each Directorate having an allocated officer to support them. They will work closely with the Directorates supporting them in the use of data and it's governance including compliance and security. They will link with and be supported by the Information Asset Owners and Administrators in each of the Directorates.

6.0 SERVICES' INFORMATION ASSET OWNERS AND REGISTERS

6.1 To comply with the current Data Protection Act and the new General Data Protection Regulations (GDPR) it is important that the Council records all the data it processes to deliver services. This information in each service area is recorded on an information asset register.

6.2 Information Asset registers have largely been completed for all Directorates, and are now under the control of the Data Governance Team in T&C. The registers identify an "information asset owner" for each asset, as well as its location, retention period, and the inclusion of personal data. The register therefore identifies a cohort of owners, so that corporate or cross-service tasks and projects which impinge on information governance issues can be managed more efficiently. As the new Data Protection Bill will oblige the Council to amend its data processing contracts and privacy notices throughout all services, the Register will be an important and useful tool for preparation and compliance. The Register is expected to continue to develop as new information governance objectives and priorities emerge, and should not be regarded as complete, or even able to be completed.

7.0 CYBER SECURITY STRATEGY

7.1 A Cyber Security Strategy that protects the Council's information systems, services and data against unauthorised use, disclosure, modification, damage and loss, has been produced.

7.2 Local authorities must have the public's trust that they will handle their information properly and protect the public, commercial and financial interests they are responsible for. This requires good local cyber security and resilience.

7.3 The Council's Cyber Security Strategy adopts a common set of security goals based on threats that we face. These are:

- Our cyber security defences operate consistently across all technology domains;
- We recognise malicious activity and can act swiftly to limit the damage;
- We understand the extent of our exposure to attack;
- Our systems are developed and maintained to keep step with evolving threats;
- Our people recognise the cyber security risk and act with due care.

7.4 Our approach to Cyber Security and Resilience, is the Prevent, Detect, Respond, Predict framework. We are building on the solid foundations we have by increasing the functionality of our perimeter network defences enabling us to recognise threats earlier and respond to minimise any potential damage.

7.5 We will continue to offer a range of training and advice to all staff to ensure they are equipped to play a key role as the last line of defence in cyber security.

7.6 We have a Cyber Security response plan in place if we detect any incidents occurring on the network and this plan is regularly tested and updated to ensure it remains fit for purpose.

8.0 DATA PROTECTION BILL, GENERAL DATA PROTECTION REGULATION (GDPR) and the DIGITAL ECONOMY ACT

8.1 The Government has published a Data Protection Bill which will bring together the General Data Protection Regulation (GDPR) and the Law Enforcement Directive within UK law. The majority of the requirements are an extension of those already in place and the Council is able to utilise the good controls and processes previously put in place for the Data Protection Act.

8.2 The Data Governance Team and Veritau are working through a compliance action plan with service areas and creating a communication plan to ensure there is a good awareness and understanding of the implications on the use of data during service delivery.

8.3 The Digital Economy Act 2017 also has a significant impact on processing personal data within the Council, and a review of Information Governance policies will also take account of many of its features.

8.4 The Digital Economy Act allows the ICO to charge fees. The Department for Digital, Culture, Media and Sport (DCMS) is currently consulting on a charging structure which includes fees of up to £1,000 a year for large organisations such as NYCC.

8.5 A key area to ensure compliance is understanding all the data the organisation owns, the Data Governance Team are working with Information Asset Owners in each Directorate to document this appropriately, this work does require the support of senior management to ensure it is completed and maintained.

9.0 INTERNET BANDING

9.1 Unmanaged Internet access presents many challenges and introduces unnecessary risk to the Council. Internet filtering helps the Council manage productivity, reduce legal liability and improve bandwidth to make employee Internet use efficient and effective.

9.2 There are currently 10 Internet bands in use, all staff have access to the default band with the others provided if approved by an Assistant Director. This allows access to such sites as social networking and other sites that may be required for certain job roles.

9.3 The implementation of a new firewall infrastructure creates an opportunity to review the internet filtering that is currently in place in relation to employees' access to the Internet from Council owned assets. To meet the Council's staff requirements and ways of working the number of Internet bands will be reduced to 4.

9.4 The current risk mitigation measures will continue to be in place and the move to the new firewall together with increased functionality will heighten the security infrastructure further.

9.5 Band 1 is the default staff access band, all the others require a business need to be provided. The Internet bands are:

- Band 1 –Staff Access
- Band 2 – Web Based Personal Email
- Band 3 – Online Network Storage and Backup
- Band 4 – Special Access (used to allow access for investigations)

10.0 RECOMMENDATIONS

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

GARY FIELDING
Corporate Director – Strategic Resources

County Hall
Northallerton

March 2018

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Background papers: None

AUDIT COMMITTEE - PROGRAMME OF WORK 2017 / 18

	ANNUAL WORKPLAN **Audit Committee Agenda Items**	SEPT 17	DEC 17	MAR 18	JUNE 18	JULY 18	SEPT 18	DEC 18	MAR 19
A	Training for Members (as necessary)			3	1	TBA	TBA	TBA	TBA
	Annual Internal Audit Plan 2017/18			×	×				×
	Annual report of Head of Internal Audit 2015/16				×				
	Progress Report on Annual Internal Audit Plan 2016/17	×		×			×		×
	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 2017/18 (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)	×			×	x			
	Letter of Representation	×				x			
	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	**TBA**	**TBA**	**TBA**	**TBA**	**TBA**	**TBA**	**TBA**	**TBA**
	Business Continuity						×		
	Audit Committee Terms of Reference		×					×	
	Counter Fraud			×					×
	Contract Management		[No]						
	Governance of external companies		[Yes]					×	
	Treasury Management – Executive February			×					×
	Corporate Procurement Strategy (including Contract Mgt)				×		×		
	VFM Review			×					
D	*Work Programme*	×	×	×	×	×	×	×	×
	Progress on issues raised by the Committee (inc Treasury Management)	×	×	×	×		×	×	×
E	Agenda planning / briefing meeting								
	Audit Committee Agenda/Reports deadline								
	Audit Committee Meeting Dates	07/09	30/11	01/03	21/06	26/07			

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

☼ **before formal meeting**
1 **Budget Plan**
2
3 Discussion with External Auditor/ external Audit on a 1 to 1 basis
Sessions to be sorted