NOTICE OF MEETING

CORPORATE COMMITTEE

Monday, 8th February, 2016, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Members: Councillors Barbara Blake (Chair), Eddie Griffith (Vice-Chair), Gina Adamou, Charles Adje, Gideon Bull, Isidoros Diakides, Joseph Ejiofor, Sarah Elliott, Emine Ibrahim, Felicia Opoku, Ali Gul Ozbek and Viv Ross

Quorum: 3

1. FILMING AT MEETINGS

Please note this meeting may be filmed or recorded by the Council for live or subsequent broadcast via the Council's internet site or by anyone attending the meeting using any communication method. Although we ask members of the public recording, filming or reporting on the meeting not to include the public seating areas, members of the public attending the meeting should be aware that we cannot guarantee that they will not be filmed or recorded by others attending the meeting. Members of the public participating in the meeting (e.g. making deputations, asking questions, making oral protests) should be aware that they are likely to be filmed, recorded or reported on. By entering the meeting room and using the public seating area, you are consenting to being filmed and to the possible use of those images and sound recordings.

The Chair of the meeting has the discretion to terminate or suspend filming or recording, if in his or her opinion continuation of the filming, recording or reporting would disrupt or prejudice the proceedings, infringe the rights of any individual, or may lead to the breach of a legal obligation by the Council.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

3. URGENT BUSINESS

The Chair will consider the admission of any late items of urgent business. (late items will be considered under the agenda items where they appear. New items will be dealt with at item 14)

4. DECLARATIONS OF INTEREST

A member with a disclosable pecuniary interest or a prejudicial interest in a matter who attends a meeting of the authority at which the matter is considered:

(i) must disclose the interest at the start of the meeting or when the interest becomes apparent, and
(ii) may not participate in any discussion or vote on the matter and must withdraw from the meeting room.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Register of Members' Interests or the subject of a pending notification must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal interests and prejudicial interests are defined at Paragraphs 5-7 and Appendix A of the Members' Code of Conduct.

5. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

To consider any requests received in accordance with Part 4, section B, Paragraph 29 of the Council's Constitution.

6. MINUTES (PAGES 1 - 10)

To consider and agree the minutes of the meeting held on 26 November 2015.

7. TREASURY MANAGEMENT STRATEGY STATEMENT (PAGES 11 - 42)

Report of the Chief Operating Officer to present the Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2018/19 to this Committee for review prior to seeking approval from Full Council.

8. HOUSING BENEFIT SUBSIDY: 2014-15 GRANT CLAIM CERTIFICATE - REPORT ON ACTIONS TAKEN FOLLOWING EXTERNAL AUDIT OF SUBSIDY CLAIM (PAGES 43 - 48)

The external auditors update report to Corporate Committee on Thursday 26 November 2015 highlighted errors in the processing of Housing Benefit and Council Tax Reduction Claims. This report sets out the key areas of concern raised by the external auditors and shows the action plan being implemented by officers to address the concerns raised.

9. OVERVIEW OF KEY FINANCE TERMS (PAGES 49 - 54)

Report of the Chief Operating Officer to provide the Committee with further information and guidance on some key financial terms, in particular:

- Balances;
- General reserves; and
- Earmarked reserves.

10. ONESAP LESSONS LEARNT (PAGES 55 - 60)

Report of the Chief Operating Officer to set out the lessons that had been learnt from the implementation of the new Vendor Invoice Management system.

11. INTERNAL AUDIT Q3 UPDATE (PAGES 61 - 82)

Report of the Assistant Director of Corporate Governance to detail the work undertaken by the Internal Audit and Counter Fraud Teams in the quarter ending 31 December 2015 and focuses on:

- Progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars); and
- Progress by management in implementing outstanding internal audit recommendations; with particular attention given to priority 1 recommendations; and
- Details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house counter Fraud Team.

12. EXTERNAL AUDIT UPDATE (PAGES 83 - 92)

Report of Grant Thornton.

13. CERTIFICATION WORK FOR LONDON BOROUGH OF HARINGEY COUNCIL FOR YEAR ENDED 31 MARCH 2015 (PAGES 93 - 96)

Report of Grant Thornton.

14. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

15. DATE AND TIME OF NEXT MEETING

14 March 2016, 7pm.

Helen Chapman
Principal Committee Co-ordinator
Tel – 020 8489 2615
Fax – 020 8881 5218
Email: helen.chapman@haringey.gov.uk

Bernie Ryan
Assistant Director – Corporate Governance and Monitoring Officer
River Park House, 225 High Road, Wood Green, N22 8HQ

Friday, 29 January 2016

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MINUTES OF THE MEETING OF THE CORPORATE COMMITTEE HELD ON THURSDAY, 26th NOVEMBER, 2015, 7.00 - 9.50 pm

PRESENT:

Councillors: Barbara Blake (Chair) Eddie Griffith (Vice-Chair), Gina Adamou, Emine Ibrahim, Felicia Opoku, Gideon Bull, Isidoros Diakides, Clive Carter (substitute), Sarah Elliot and Charles Adje

20. FILMING AT MEETINGS

The Chair referred Members present to agenda item 1 as shown on the agenda in respect of filming at this meeting, and Members noted the information contained therein.

21. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for absence were received from Cllr Ejiofor.

Apologies for absence were also received from Cllr Ross. Cllr Carter substituted for Cllr Ross.

22. URGENT BUSINESS

There Committee noted that there were two items of urgent business, which would be tabled at Item 11. The Committee noted that the reports were not available at the time of publication of the agenda.

- External Audit Progress Report (Report of Grant Thornton)
- Annual Audit Letter (Report of Grant Thornton)

23. DECLARATIONS OF INTEREST

There were no declarations of interest.

24. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

There were no such items.

25. MINUTES

RESOLVED

That the minutes of the meeting of the Corporate Committee held on 24 September 2015 be approved as a correct record and signed by the Chair.

26. FOLLOW UP FOLLOWING SCHOOLS NOT COMPLING WITH AUDIT RECOMMENDATIONS

The Committee received the follow up report on schools failing to comply with audit recommendations; presented by Chris Kiernan, Interim Assistant Director Schools and Learning.

In response to a question from the Committee regarding the reasons why schools failed to implement audit recommendations, Mr Kiernan advised that there was a great deal of training and support available to schools including instances when they offered limited or no assurance. Mr Kiernan further advised that the purpose of the report was to highlight those schools that failed to engage in the process and offer satisfactory assurances of appropriate plans being in place.

In response to a question from the Committee, Mr Kiernan commented that the council was ultimately responsible for any maintained school because there was no legal separation between a maintained school and the Council. The Council was legally responsible for the running of maintained schools.

The Committee enquired about whether the council could adopt a 'zero tolerance' approach. In response, Mr Kiernan advised that the procedures set out in the report were very robust. The current escalation process, as outlined in the report, involved the issuance of an initial informal warning notice that would be followed up by a formal warning notice. Mr Kiernan advised that he would be very reluctant to progress straight to a formal warning because this may result in an Ofsted inspection that, if it was found that the school required improvement or was placed in special measures, could have a detrimental impact on the school and the wider community. The Committee were advised that the current process worked and that, to date, there had been no instances of formal procedures being instigated.

In response to further concerns raised by the committee around developing a more robust approach, Mr Kiernan commented that the Schools and Learning service had experience of issuing informal warning notices in the context of school improvement which had a rapid and positive effect on improving performance. In this context, the procedures and escalation process set out in the report were seen as sufficient in Mr Kiernan's view.

The Committee noted that schools would be informed of the procedures and the existence of an escalation process through the Schools Bulletin. The next steps in this process were then around monitoring implementation of these procedures. In addition, the schools audit programme would be monitoring compliance over the next quarter. The Committee requested that a follow up report outlining how many schools had not complied, response times and what action had been taken would be brought back to a future meeting of the Committee.

Action: Chris Kiernan and Anne Woods

The Head of Audit & Risk Management advised that in 2014/2015 around half of the schools achieved limited assurance and around half achieved substantial assurance, which was a significant improvement from the position three years ago.

RESOLVED

I). That, in cases where audit and risk management officers follow up a school audit report and find that there is non-compliance with any priority one and two recommendations, the auditor concerned should inform the school, in writing, of the requirement to demonstrate compliance within 15 working days; either by providing evidence to confirm the recommendation has been fully implemented, or an action plan that set out the timeframe and means of implementation..

II). That should the auditor fail to receive evidence of compliance that she or he finds satisfactory, at that point, school governor services should be informed.

III). That the head of governor support will liaise directly with the head teacher and chair of governors to ensure compliance with all recommendations. Compliance will be enforced through an escalation process as follows:

- The first stage of escalation will be a letter to the head teacher and chair of governors stating the requirement that they offer assurance that appropriate action is being taken to address recommendations made within a specified time, to be specified by the head of governor services (following consultation with the head of audit and risk management);

- should appropriate assurance not be given within the timescale set, an informal warning notice will be sent to the school by the assistant director, schools and learning, stating the requirement for the school to offer assurance of action to comply with audit recommendations within a specified time – this will generally be the same as for a formal warning notice (15 working days), but the assistant director, in consultation with the head of audit and risk management, may vary this;

- should appropriate assurance not be provided within the timescale set in the informal notice, a formal warning notice, under section 60 (2) (b) of the Education and Inspections Act, 2006) will be sent to the head teacher and chair of governors by the director of children’s services, which must be responded to within 15working days;

- should appropriate assurance still not be forthcoming, the Director of Children’s Services will consider what action should be taken using powers set out in section 63, 64, 65 or 66 of the Education and Inspections Act, 2006.

27. INTERNAL AUDIT Q2 PROGRESS REPORT

The Committee received the Internal Audit Progress Report 2015/16 Quarter 2 report presented by Anne Woods, Head of Audit and Risk Management.

In presenting the report, Ms Woods gave an overview of the performance to date. The Committee noted that in 2015/16 to date, there had been 17 properties recovered through investigations into tenancy fraud and that 22 of the 88 ongoing investigations were with Legal Services and progressing towards tenancy recovery. The Committee also noted that in 2015/16 to date, 49 Right-to-Buy applications have been withdrawn or refused either following the applicants' interview with the Fraud Team, further investigations and/or the requirement to complete money laundering processes; 11 applications had been cleared for progression; and 255 applications were currently under investigation.

Ms Woods advised the Committee that HfH continued to fund the seconded officer directly after the end of the DCLG grant, and that this agreement had been extended to 31 December 2015. Ms Woods further advised that Housing Benefit investigations transferred to the DWP's Single Fraud Investigation Service (SFIS) on 1 August 2015. A final total of 26 cases which related to benefit fraud were transferred to SFIS.

The Committee raised concerns that HfH may decide to cease funding the seconded Tenancy Management Officer and might bring the service back in house, due to a perception that HfH lacked the capacity to undertake this work. The Committee asked for clarification on the issue of fraudulent succession, particularly in light of the current Housing Allocations Policy that removed the ability for residents to claim succession rights, unless in extenuating circumstances and questioned why cases of fraud were still ongoing. Ms Woods acknowledged that under the current policy, Homes for Haringey's (HfH) Decisions Panel were responsible for issues around succession but clarified that some of the cases being investigated were 2 or 3 years old and predated the 2015 Housing Allocations Policy.

The Committee requested further information about what powers were available to the authority in respect of tackling fraud and in particular the illegal subletting of Council property. Ms Woods advised that the Council could use the Prevention of Social Housing Fraud Act 2013 for cases which were identified after the enactment of the legislation, to reclaim the profit made by an individual through the fraudulent subletting of Council property. The Committee noted that there were a number of cases currently in the pipe line to do just that. The Committee was also advised that the Fraud Act 2006 could also be used.

The Head of Audit and Risk Management clarified that even in instances where the person/s had paid back the debt owed through fraudulent behaviour, the Council would still proceed with prosecution proceedings. However, the fact that they had paid some or all of the money back may be taken into account in respect of sentencing.

The Committee requested that HfH were invited to the next meeting to discuss tenancy fraud in more detail. The Committee also requested that HfH should be invited to future meetings on a regular basis.

Action: Chair / Clerk

The Committee noted a typo on page 57 of the agenda pack, under the heading number of cases proven at 30/09/16. The Committee were advised that this should have been 30/09/15.

RESOLVED

That the Committee noted the audit coverage and counter fraud work completed.

28. PROGRESS UPDATE TRESURY MANAGEMENT MID YEAR UPDATE

The Committee considered the Treasury Management mid year activity and performance report, presented by George Bruce, Head of Finance – Treasury and Pensions. In addition, the Committee was asked in particular to note the investment strategy for 2016-17 to be incorporated into the Treasury Management Strategy Statement.

In response to a question from the Committee regarding oversees deposits in default (apart from those held in the Icelandic banks), Mr Bruce advised that there were no direct overseas investments but there were some overseas investments through the money market funds. The Committee noted that all of the deposits through the money markets were sterling denominated but that there would be range of foreign institutions within those. Mr Bruce clarified that 96% of deposits within the Icelandic banks had been reclaimed, with a further 2% expected to be reclaimed.

In response to a question around governmental guidelines limiting the size of deposits in a particular investment, Mr Bruce advised that following the collapse of the Icelandic banks the government brought in the Prudential Code which introduced a framework for local authorities to design their investment framework which replaced previous guidelines but did not set any defined limits. It was the role of the Committee and Full Council to set the limits through the Treasury Strategy.

The Committee requested further explanation behind the reasons why a particular bank's credit rating might be upgraded or downgraded. Mr Bruce advised that the Council used the lowest score for a particular bank from the three credit rating agencies, hence Barclays' credit rating had been downgraded from A to A- to reflect the fact that one of the three agencies had downgraded its credit score. The scores themselves were based upon an assessment of the ability of that bank to repay its debt. A downgrade in the credit score reflected that the bank was in a slightly weaker financial position and therefore the probability of the bank defaulting was slightly higher than previously. Mr Bruce also advised that as the credit rating of a bank was reduced so was the maximum maturity period in which the Council was prepared to invest in a particular bank.

The Committee noted that following the government's bail out of a number of banks in 2008, the UK government and foreign governments passed legislation to prevent governments assisting failing banks unless in the first instance deposits were transferred into share capital. This was not applicable to retail banking or non-financial customers, but did affect local authorities for instance. Mr Bruce commented that the result was that if a bank looked as though it was going to fail the Council's deposits could be turned into share capital. The authority was therefore looking to diversify its investment portfolio into a wider range of, and using the most secure, counterparties.

Mr Bruce advised the Committee that as part of the Investment Strategy there were a number of overseas and supranational banks who had been brought in as counterparties, each of these banks was at least AA rated and was also from a country that was AAA rated.

In response to a question on the reasons behind why local authorities were no longer guaranteed by the government, Mr Bruce responded that governments effectively collectively agreed that they would never again be responsible for bailing out financial institutions on such a scale again; as a result depositors would have to suffer. Individuals, small business and trading companies were exempted, while organisations that were considered savvy enough to understand the risks of lending to banks were left to bear the risk of a bank failing; including local authorities.

The Committee enquired about the justification behind the suggested maturity period for the Council's list of counterparties investments. In response, Mr Bruce commented the particular maturity period was based on a combination of factors which reflected the quality of the banks; such as the credit rating of the bank and the financial risk of investing in the country in which the bank was based.

In response to a question around the fluctuations in the authority's investment balance over the year, Mr Bruce advised that this was reflection of the fact that most of the authorities income came in during the first three months of the year, whilst the expenditure was more evenly spread. This cycle was true for each year and also for all local authorities. The Council had also been building up reserves in recent years to cushion the impact of the expected £70m of savings that were due to be implemented over the next three years.

In response to questions relating to the amount of money held by the authority, the Chief Operating Officer clarified that there were two types of cash; one was a cash reserve, which was akin to a savings account and the other type which was generated through grants and other sources of income and was spent on an ongoing basis. The Treasury and Pensions team only invested the cash reserves and their role was to invest that money as quickly as possible to accrue interest on it and to then bring it back in when the authority needed to spend the money.

The Chief Operating Officer advised that the Council agreed its three year medium Financial Strategy in February 2015 and that provided the plan was implemented, the Council would be able to make the savings required. The Committee noted that the issue was that the plan required a number of savings to be made in this financial year, which had not been made and that if those savings weren't made this year then some of the cash reserves would have be used as a cushion. The Chief Operating Officer advised that as long as this year's savings that had not been made were made next year along with the planned savings for next year, then the Council would be in a financially robust situation and should not need to further use its cash reserves. The cash reserves were made up of un-earmarked funds.

RESOLVED

I). That the Treasury Management activity undertaken during the six months to 30th September 2015 and the performance achieved be noted; and

II). That the investment strategy for 2016-17 be incorporated into the Treasury Management Strategy Statement.

29. INDIVIDUAL ELECTORAL REGISTRATION

The Committee considered the update report on individual electoral registration transition in year 2, as presented by George Cooper, Head of Electoral Services. Mr Cooper advised the Committee that the transition to Individual Electoral Registration was completed and that the electoral registration system was now significantly different to where it was two or three years ago. The Committee noted that the register published on the 1st December would be used to define parliamentary boundaries in 2020 and that constituency boundaries would be drawn on the basis of each constituency needing to be within +/- 5% of a national average. Mr Cooper advised that this, combined with a reduction in the overall number of MP's, would likely affect Haringey's current position of having two parliamentary constituencies entirely within its borough boundaries.

The Committee noted that there was still some money available from the Cabinet Office to get more people signed up to the new electoral registration system given that there would be at least one election held next year. The Committee were asked to endorse the continuation of pro-active registration campaigning after the 1st December deadline.

In response to a question from the Committee, Mr Cooper advised that his service were finding that a number of people were submitting information in the old format and then officers were having to write back to request additional information due to the higher burden of evidence that was now required to enter somebody onto the electoral register. Examples of additional information required included, date of birth and national insurance number.

The Committee enquired whether Haringey had done as much as neighbouring boroughs to get as many residents registered. Mr Cooper advised that a huge amount of data matching had been undertaken by Haringey and that in his opinion the level of data matching would stand up favourably in relation to any other local authority. In addition, the Committee noted that campaigning had begun in August and that 70 canvassers had been employed to knock on doors.

In response to a request for clarification around parliamentary constituency boundaries, Mr Cooper advised that at present Haringey was slightly under-represented because Hornsey and Wood Green was a larger than average parliamentary constituency. Mr Cooper advised that the rule around constituencies being +/- 5% of the national average could have a number of impacts, for instance the average ward size was around 8000 electors which would be more than 5% of a parliamentary constituency and so individual wards could potentially be split across different parliamentary boundaries. It remained to be seen what the precise recommendations of the Boundary Committee would be.

The Committee enquired whether there were any rewards or sanctions available for use against those that, for instance, falsely claimed to be living alone for Council Tax purposes or those who did not return the form all together. In response Mr Cooper advised that credit reference agencies used the electoral register for referencing purposes and that this in some way provided an incentive. The committee noted that the only sanction available was a civil penalty, which was unlikely to be used due to the amount of time and effort required and the relatively small penalty available.

The Committee asked whether the canvassers employed could be specialised into small teams that could focus on specific ethnic/national groups. Particularly as it was felt, that translation booklets would not always be suitable for say, elderly residents. Mr Cooper agreed that he would like canvassing teams to reflect their location but advised that it could be difficult to recruit canvassers due to the late time of year that the canvassing took place and the resultant dark nights. Mr Cooper also commented on the difficulties involved with the number of languages spoken in the borough; it was always the aspiration to have a canvass force closely matching the diversity of the Haringey community, but as canvassers were assigned to canvass patches, each diverse in itself, it would often be the case that a canvasser who may have a variety of language skills would meet customers from a much wider background than their own.

RESOLVED

That the Committee noted the actions taken in pursuit of Electoral Registration thus far, and endorsed the determination of the Electoral Registration Officer to continue pro-active registration campaigning beyond 1 December 2015.

32. ANY OTHER BUSINESS OF AN URGENT NATURE

There Committee received two items of urgent business, an External Audit Progress Report and the Annual Audit Letter, presented by Paul Dossett from Grant Thornton. The Committee noted the contents of the report and the progress to date.

The Committee asked for the reasons behind the Council continuing to process a large number of benefit claims incorrectly and there being a high number of errors identified in those claims. In response, officers responded that work was ongoing and that cases were becoming more complicated with more people working part time and on zero-hour contracts, for instance. Officers also advised that a process review was in place to examine the reasons behind the large number of benefit claims handled incorrectly but that this had a limited effect. A renewed focus on getting the process right would be prioritised and this would include turning all of the agency staff into permanent staff and an accompanying training programme.

The Committee also requested clarification on the reasons behind delays in the implementation of the Council's OneSAP system and the resulting backlog of approximately £30m worth of invoices that needed to be paid. The Chief Operating Officer advised that issues arose with both the system itself and also staff failing to operate the system correctly and that an extensive lessons learnt exercise was undertaken as a result.

The Committee noted that an Overview and Scrutiny report was being prepared around the Business Infrastructure Programme. The Committee requested that a report on the OneSAP backlog be brought back to the next Committee meeting, with a particular focus around what was being done to reduce the impact on small businesses. The Chief Operating Officer advised that she did not know the exact current figure for the backlog or the figure for late payment fees, but agreed to circulate that information to the Committee. The Chief Operating Officer also agreed to bring the lessons learned on OneSAP back to the Committee.

Action: Tracie Evans

The Committee noted that the grant claim certification pool would be prepared for the next meeting which would go into more detail around issues with housing benefit claims.

Action: External Auditors/ Tracie Evans

The Committee thanked Mr Dossett and Grant Thornton for their work and all of their contributions to the Committee over the previous meetings.

The Committee requested that an update was brought to the next meeting which gave an update on the financial picture of the Council as a whole, including balances, reserves and contingencies. The Committee also requested a dissection of ear-marked & non ear-marked funds and an analysis of what happens with those invested funds when they reach their maturation period.

Action: Tracie Evans

33. DATE AND TIME OF NEXT MEETING

8th February 2016, 7pm.

CHAIR: Councillor Barbara Blake

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Report for: Corporate Committee

Item number: **7**

Title: Treasury Management Strategy Statement 2016/17 – 2018/19

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: George Bruce, Head of Finance - Treasury & pensions
George.bruce@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 To present the Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2018/19 to this Committee for review prior to seeking approval from Full Council. The TMSS was considered by Overview and Scrutiny on 25th January and comments raised are discussed in the report.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the proposed Treasury Management Strategy Statement for 2016/17 to 2018/19 is agreed and recommended to Full Council for final approval.

4. Reasons for decision

4.1 The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

5. Alternative Options Considered

5.1 Alternative options are discussed in section 10 of the strategy.

6. Background information

6.1 The CIPFA Treasury Management Code of Practice requires that the Treasury Management Strategy Statement is formulated by the Committee responsible for the monitoring of treasury management, is then subject to scrutiny before being approved by full Council. Corporate Committee is responsible for formulating the Treasury Management Strategy Statement for recommendation to Full Council.

6.2 Training will be provided in advance of the meeting by Arlingclose, the Council's Treasury advisor.

6.3 The summary set out in Appendix 1 is to bring to members' attention the key elements of the proposed strategy being considered.

Proposed Treasury Management Strategy Statement

6.4 In 2016/17 a continuation of very low short term interest rates compared to medium and long term rates is expected throughout the year. This means that there will be an on-going "cost of carry" if funds are borrowed in advance of capital expenditure being incurred. Therefore the Council plans to continue to run a strategy of keeping cash balances low and invested short term using local authority borrowing to cover temporary liquidity requirements.

6.5 There are £12.6 million of loans due to mature during 2016/17 and projected debt financed capital expenditure of £44.1 million. As the Council has already maximised its internal borrowing position, new borrowing will be required should the projected capital plans proceed. Short term borrowing rates remain extraordinary low starting at 0.5% making funding via short term debt attractive. Longer rates are close to all time lows but expected to increase gradually (but slowly) over the next three years remaining well below pre 2008 levels suggesting that locking in longer term debt may have a short term carry cost but overall benefit.

6.6 Discussions with Arlingclose, the Council's treasury management advisers, have indicated that it may be possible to continue to utilise short term debt for the next three years but lock in today's longer term rates by forward dealing thereby protecting against rate increases.

6.7 The Local Government Association has established the Municipal Bonds Agency in collaboration with local authorities. The MBA, which aims to offer debt at costs below the PWLB, has been included as a borrowing counterparty.

6.8 For the investment strategy, the main consideration has been the continued weakness of banks credit ratings. The ability of governments to require non protected deposit holders, such as local authorities, to convert deposits into capital, has increased the anticipated loss should a default occur.

6.9 The appropriate response is to minimise the use of deposit facilities with weaker rated clients and rely on more secure investments e.g. covered deposits, tradable instruments and high quality overseas banks and to increase diversification within the portfolio.

6.10 The counterparty list (annex 5) includes twelve highly rated overseas banks that are active in accepting sterling deposits. Higher quality investments such as covered bonds (deposits backed by collateral) and Supra National Banks are also included. Arlingclose advises on the maximum maturity of banks deposits. With banks recovering from the financial crisis Arlingclose have extended the maximum maturities for some of the higher rated banks from 6 to 13 months. The Council will follow this guidance. The prior year strategy had no allowance for deposits in excess of 12 months. This year a maximum of £10 million invested between 12- 24 months is permitted to reflect core cash balances and the addition yield available for longer dated deposits.

6.11 Although the minimum criterion for the Council's lending list is set with reference to credit ratings, the Council will review a range of information in addition to credit ratings when determining credit worthiness. Within the strategy statement, the proposed limits for time and amounts are maximum limits, and the list of counterparties is the broadest range which can be used. However, operationally the limits applied and counterparties used are reviewed regularly and where necessary restricted in response to any concerns about creditworthiness to ensure security of investments remains the priority for the Council. In particular, maximum maturities recommended by Arlingclose will be followed.

Comments from Overview & Scrutiny Committee

6.12 The TMSS was considered by Overview & Scrutiny Committee. They requested that Corporate Committee consider the refinancing risks relating to using short term borrowing to finance the capital programme, in particular that with interest rates expected to increase using short term debt may lead to higher debt costs in the long term.

7. Contributions to Strategic Outcomes

7.1 The treasury strategy will influence the achievement of the Council's financial budget.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1 The approval of a Treasury Management Strategy Statement and prudential indicators are requirements of the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code. The proposed strategy of minimising borrowing and continuing to make use of internal balances not only minimises costs, but also reduces the credit risk associated with investments, as the amount being invested is low.

8.2 New borrowing is projected during 2016/17 due to planned maturities and capital expenditure and it is proposed that the cost of refinancing be minimised by borrowing short term from local authorities to maintain liquidity and taking opportunities to fix borrowing rates should favourable opportunities arise.

Legal

8.3 The Council must make arrangements for the proper administration of its financial affairs and its power of borrowing is set out in legislations. In addition further changes were introduced to the way the Housing Revenue Account is dealt with as a result of the Localism Act 2011. The level of HRA Capital Financing Requirement must remain within the debt cap set by the Department of Communities and Local Government.

8.4 The Council is required to determine and keep under review its borrowing and in complying with this requirement it must have regard to the code of practice entitled the “Prudential Code for Capital Finance in Local Authorities” as published by CIPFA from time to time. In addition, the Council adopted the CIPFA Treasury Management Code of Practice in May 2002.

8.5 As mentioned in this report the Code of Practice requires the Council to agree a Treasury Management Strategy Statement (TMSS) (including an Investment Strategy). In considering the report Members must take into account the expert financial advice available within it and any further oral advice given at the meeting of the Committee. In particular, members should note the need for short term borrowing.

Equalities

8.6 There are no equalities issues arising from this report.

9. Use of Appendices

9.1 Appendix 1: Summary of Treasury Management Strategy Statement
9.2 Appendix 2: Draft Treasury Management Strategy Statement

2016/17 – 2018/19.

10. Local Government (Access to Information) Act 1985

10.1 Not applicable.

Appendix 1

Summary of Treasury Management Strategy Statement

The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement and Prudential Indicators annually in advance of the financial year. The key areas of the strategy are how much borrowing the Council needs to do, where should temporary surplus cash be invested and the Prudential Indicators.

Borrowing

The Council borrows to fund capital expenditure. As part of the financial planning process, it is determined how much capital expenditure should be funded through borrowing. The Council has an existing borrowing portfolio and the amount it is proposed to borrow is calculated by reference to capital expenditure to be funded through borrowing and the loans maturing in the year. The expected amount of borrowing is set out in tables 1a & 1b for General Fund and HRA respectively. The strategy also sets out the sources of borrowing the Council could use.

Investments

The Council invests temporary cash surpluses on a daily basis. When considering where to invest, the Council considers security first – will the money be returned, then liquidity – how quickly will it be returned and then finally yield – what rate of interest will be earned.

The Council is required to agree a framework within which officers can make investments. This consists of a lending list of institutions with monetary and time limits (set out in Annexes 4 & 5 of the strategy) and officers cannot lend the Council's monies to any institution not on this list. The second part of the framework is the setting of a minimum credit rating - this means that if any institution on the lending list falls below the minimum, then investments would cease and if possible monies would be withdrawn immediately.

Prudential Indicators

The Council is required to approve prudential indicators on an annual basis. There are two types – capital indicators and treasury management limits. They are shown throughout the report and summarised in Annex 2. The capital indicators are designed to indicate to members the impact of borrowing to fund capital and are set as best estimates. The treasury management limits are different – they are limits which cannot be breached and are designed to put in a level of control over treasury management activities. Corporate Committee receive quarterly monitoring reports on the indicators and limits and Council receive a mid year and year end report on them.

London Borough of Haringey

Treasury Management Strategy Statement 2016/17 to 2018/19

Introduction

1.1 In February 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 In addition, the Department for Communities and Local Government (CLG) issued revised *Guidance on Local Authority Investments* in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.

1.3 This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

1.4 The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

1.5 CIPFA has defined Treasury Management as:

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

1.6 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are integral elements of treasury management activities and include Credit and Counterparty Risk, Liquidity Risk, Market or Interest Rate Risk, Refinancing Risk and Legal and Regulatory Risk.

1.7 The strategy takes into account the impact of the Council's proposed Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates. Subsequent changes to the revenue budget and capital programme will require adjustments to the TMSS and Prudential Indicators.

1.8 The purpose of this report is to propose:

- Treasury Management Strategy - Borrowing in Section 4, Investments in Section 5
- Prudential Indicators – these are detailed throughout the report and summarised in Annex 2
- MRP Statement – Section 7

1.9 The strategy has been developed in consideration of economic and interest rate forecasts detailed in annex 3.

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2. External Context

Economic background: Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in November. Wages are growing at 3% a year, the unemployment rate has dropped to 5.4% and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015 The MPC held policy rates at 0.5% for the 82nd consecutive month at its meeting in December 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The markets reacted calmly when the Federal Reserve finally raised policy rates by 0.25% at its December meeting, indicating that future increased will be gradual. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

Credit outlook: The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.

Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast: The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position in Europe mean that the risks to this forecast are weighted towards the downside.

A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at Annex 3.

For the purpose of setting the budget for 2016-17, it has been assumed that new investments will be made at an average rate of 0.75%, and that new long-term loans will be borrowed at an average rate of 2.1%.

3. Balance Sheet and Treasury Position

3.1 The underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), together with Balances and Reserves, are the core drivers of Treasury Management activity. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 1a: Treasury Position – General Fund

	31/03/2015 Actual £'000	31/03/2016 Approved £'000	31/03/2016 Projected £'000	31/03/2017 Estimate £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000
General Fund CFR	278,291	297,121	271,742	290,670	285,388	296,388
Less: Share of existing external debt and other long term liabilities	147,684	139,960	141,749	133,661	125,213	117,283
Less: 2016 / 17 cash balance reduction				20,000	20,000	20,000
Internal Borrowing	130,607	131,318	129,993	124,993	119,993	114,993
Cumulative Net Borrowing Requirement	0	25,843	0	12,016	20,182	44,112

Table 1b: Treasury Position – HRA

	31/03/2015 Actual £'000	31/03/2016 Approved £'000	31/03/2016 Projected £'000	31/03/2017 Estimate £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000
HRA CFR	271,096	292,666	278,548	293,002	295,943	297,624
Less: Share of Existing External Debt & Other Long Term Liabilities	197,981	191,454	190,813	182,483	173,705	166,016
Internal Borrowing	73,115	69,780	87,735	82,735	77,735	72,735
Cumulative Net Borrowing Requirement	0	31,432	0	27,784	44,503	58,873

3.2 The tables above show how the Council's capital requirement is funded currently and how it is expected to be funded in the coming years. Due to the differential between short and long term interest rates (discussed in more detail in section 4), the Council has maximised the amount of internal borrowing that can be done. As short term interest rates are forecast to remain below 2% for the next three years, it is anticipated that a significant level of internal borrowing will continue, with the only reduction expected reflecting the planned movement in reserves.

3.3 Ensuring that gross external debt does not exceed the CFR over the medium term is a key indicator of prudence. There has been no difficulty meeting this requirement in 2015-16 nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.

3.4 It is a requirement for the HRA CFR to remain with the limit of indebtedness or "debt cap" set by the DCLG at the time of the implementation of self-financing. The table below shows the current expected level of the HRA CFR and the debt cap. Any decision by the Council to undertake new borrowing for housing will cause the future years' debt predictions for the HRA debt pool to increase.

Table 2: HRA Debt Cap

	31/03/2015 Actual £'000	31/03/2016 Approved £'000	31/03/2016 Estimate £'000	31/03/2017 Estimate £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000
HRA CFR	271,096	292,666	278,548	293,002	295,943	297,624
HRA Debt cap	327,538	327,538	327,538	327,538	327,538	327,538
Headroom	56,442	34,872	48,990	34,536	31,595	29,914

3.5 Table 3 below shows proposed capital expenditure over the coming three financial years. It is a requirement of the Prudential Code to ensure that capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and housing rent.

Table 3: Capital Expenditure

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
General	64,049	54,568	44,571	50,682	52,410	50,000
HRA	40,997	92,074	96,436	64,307	51,121	50,000
Total	105,046	146,642	141,007	114,989	103,531	100,000

3.6 Capital expenditure is expected to be financed or funded as follows.

Table 4: Capital Financing

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Capital receipts	20,113	25,798	9,275	3,200	33,650	12,000
Other grants & contributions	22,568	28,953	30,309	17,806	14,441	17,000
Government Grants	40,799	16,612	8,904	4,000	3,000	3,000
Reserves / Revenue contributions	10,939	28,260	80,702	45,853	44,180	44,319
Total Financing	94,419	99,623	129,190	70,859	95,271	76,319
Borrowing	10,627	47,019	11,817	44,130	8,260	23,681
Total	105,046	146,642	141,007	114,989	103,531	100,000

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3.7 As an indicator of affordability the table below shows the incremental impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme (based on the interest cost of capital receipts and borrowing applied to capital expenditure) with the number of homes paying council tax (GF) and the number of rented properties (HRA). The General Fund and HRA ratios are below projections this year as no external borrowing has been required. For 2016-17 the ratio is impacted by expectations of significant additional borrowing.

Table5: Incremental Impact of Capital Investment Decisions

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Increase in Band D Council Tax	16.02	34.03	5.02	32.04	14.26	31.74
Increase in Average Weekly Housing Rents	0.17	2.27	0.81	1.51	1.00	1.00

3.8 The ratio of financing costs to the Council's net revenue stream is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on debt costs less investment income.

3.9 The ratio for the General Fund is deteriorating over the period. This is due mainly to reduced Council revenues, including reclassification of Better Care funding. The effect of net new borrowing is mitigated by the lower coupon compared with maturing debt. HRA derives greater benefit from the repayment of high coupon debt.

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2014/15 Actual %	2015/16 Approved %	2015/16 Projected Out-turn %	2016/17 Estimate %	2017/18 Estimate %	2018/19 Estimate %
General Fund	1.89	1.90	1.89	1.93	2.01	2.25
HRA	10.01	9.28	9.06	8.88	9.02	8.98

4 Borrowing Strategy

4.1 A breakdown of the Council's current and expected external borrowing plus other long-term liabilities is shown in Annex 1. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit. Debt (excluding leases) is projected at £283.2 million at the year end, a decrease of £10.8 million during the year. No new borrowing, including temporary borrowing, has been required this year. It is anticipated that new borrowing of £40 million, including £13 million of maturities will be required next year, allowing for a £20 million reduction in cash balances.

Objectives

4.2 The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy:

4.3 Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.4 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise. The level of reserves and working capital that enable internal borrowing will be monitored and projected changes will be used to determine the timing and level of new debt. The Council's treasury advisor will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2016/17 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.5 Alternatively, the Authority may arrange forward starting loans during 2016/17, where the interest rate is fixed in advance, but the cash is received in later years. This will enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. These arrangements will only be considered where there is certainty as to borrowing needs and timing and where predictability of interest costs is beneficial to the capital programme.

4.6 The Council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers, Arlingclose Ltd. The following issues will be considered prior to undertaking any external borrowing:

- Affordability;
- Maturity profile of existing debt;
- Interest rate and refinancing risk;
- Borrowing source.

The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Other local authorities
- Institutions such as the European Investment Bank and directly from Commercial Banks
- UK public and private sector pension funds (except Haringey Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other entities created to enable local authority bond issues

- Leasing

4.7 The Authority may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages. The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans that may be available at more favourable rates.

4.8 UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Corporate Committee that contains explicit legal advice.

Lender's Option Borrower's Option Loans

4.9 The Authority holds £125 million of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS have options during 2016/17, and although the Authority understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Authority will take the option to repay LOBO loans at no cost if it has the opportunity to do so. No further LOBO loans will be considered without discussion with Corporate Committee.

Short-term and Variable Rate loans

4.10 These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below. At present they do offer significant savings compared with long term debt.

Debt Rescheduling

4.11 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

5. Investment Strategy 2016-17

5.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £9.6 million and £95.1 million. It is anticipated that balances will be lower next year as debt is repaid. The impact on the value of cash balances from capital expenditure and the timing of any associated debt financing are uncertain.

Objectives

5.2 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk receiving unsuitably low investment income.

Strategy

5.3 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2016/17. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits, bank CDs and money market funds. These investments are exposed to bank bail in risk. To reduce the exposure to unsecured bank deposits, the counterparty policy has been expanded to include quasi government institutions; Supranational banks. Covered bonds are now identified separately from unsecured bank deposits as these deposits are of lower risk being both secured on collateral and possessing a bank issuer guarantee. During 2015 the Council commenced using treasury bills and certificates of deposits (CDs). The latter provides access to a greater range of counterparties who do not take fixed terms deposits e.g. overseas banks. This diversification has enabled the limit per counterparty for individual banks to be reduced from £20 million to £10 million. Similarly for local authority deposits the maximum exposure is halved to £15 million. These changes also reflect the anticipation that cash balances will remain at or below recent levels as part of the policy to minimise new long term borrowing.

Specified and Non-specified Investments

5.4 Investments are categorised as 'Specified' or 'Non Specified' investments based on the criteria in the CLG Guidance. Instruments proposed for the Council's use within its investment strategy are contained in Annex 4, which also explains the meaning of these terms. The list of proposed counterparties is shown in Annex 5. In keeping with the strategy of maintaining high quality counterparties, at least 50% of all investments will be specified investments.

5.5 Although cash balances will be low at certain times, there tends to remain a core balance that is capable of being invested for more than twelve months. On occasions investments with a maturity of slightly in excess of 12 months can offer exceptional good value. For this reason, the strategy allows a maximum of £10 million to be invested for over 12 months but less than 24 months. The Chief Financial Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Investment activity will be reported to Corporate Committee as part of the quarterly reports.

Risk Assessment and Credit Ratings

5.6 Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used.

5.7 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.8 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) so that it may fall below the approved rating criteria, then no new investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.9 The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

5.10 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

Liquidity Management

5.11 The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments.

6 Treasury Management Indicators

6.1 Exposures to treasury management risks are measured and managed using the following indicators.

Authorised Limits for external Debt

6.2 The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

Table 7: Authorised Limit

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	294,065	441,211	283,233	468,174	489,794	506,475
Other Long-term Liabilities	48,218	62,321	49,329	60,057	54,829	49,549
Total	342,283	503,532	332,562	528,231	544,623	556,024

Operational Boundary for External Debt

6.3 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit. The Operational Boundary and Authorised Limit apply at the total level. The limits compare with existing gross debt of £333 million and projected three year debt financed capital expenditure of £76 million and provides scope for variations in capital expenditure, funding sources and reserves.

Table 8: Operational Boundary

	2014/15 Actual £'000	2015/16 Approved £'000	2015/16 Projected Out-turn £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
Borrowing	294,065	391,211	283,233	418,174	439,794	456,475
Other Long-term Liabilities	48,218	56,656	49,329	54,598	49,844	45,044
Total	342,283	447,867	332,562	472,772	489,638	501,519

6.4 The Chief Financial Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Corporate Committee.

Fixed and Variable Interest Rate Exposure

6.5 The Council's existing level of fixed interest rate exposure is 98% and variable rate exposure is 2%, however it is recommended that the limits in place for 2015/16 are maintained in future to retain flexibility. At present variable rates from the PWLB compare unfavourably with short term loans from local authorities due to the additional margin charged over gilts. If LOBO loans are treated as variable, the current variable allocation is 48%.

Table 9: Fixed and variable

	2015/16 Approved %	2015/16 Actual %	2016/17 Upper Limit %	2017/18 Upper Limit %	2018/19 Upper Limit %
Upper Limit for Fixed Interest Rate Exposure	100	98	100	100	100
Upper Limit for Variable Interest Rate Exposure	40	2	40	40	40

Maturity Profile

6.6 The Council is required to set limits on the percentage of the portfolio maturing in each of the periods set out in the table below. Limits in the following table are intended to control excessive exposures to volatility in interest rates when refinancing maturing debt. The limits have been set to reflect the current debt portfolio, and to allow enough flexibility to enable new borrowing to be taken for the optimum period. The limits apply to the combined General Fund and HRA debt pools.

6.7 The maturity range has been applied to LOBO loans (see 4.8 above) based on their contractual maturity date. The column on the right hand side represents the maturity structure based on the next date that the lender is able to reset interest rates.

Table 10: Maturity Profile

	Lower Limit	Upper Limit	31-Mar-16	31-Mar-16
	%	%	%	LOBO adjusted %
under 12 months	0%	40%	4%	48%
12 months & within 24 months	0%	35%	4%	4%
24 months & within 5 years	0%	35%	9%	9%
5 years & within 10 years	0%	35%	13%	13%
10 years & within 20 years	0%	35%	4%	4%
20 years & within 30 years	0%	35%	4%	0%
30 years & within 40 years	0%	35%	26%	12%
40 years & within 50 years	0%	50%	10%	10%
50 years & above	0%	50%	26%	0%

Average Credit Scoring

6.8 Arlingclose, the Council's treasury management advisers, has a way of scoring the level of credit risk the Council is taking. This measure scores credit risk on a scale of 0 to 10 on both a value weighted and a time weighted basis and the table below demonstrates how to interpret the scores:

Above target	AAA to AA+	Score 0 - 2
Target score	AA to A+	Score 3 - 5
Below target	Below A+	Score over 5

6.9 The quarterly scores during 2015-16 have been within the range 2.70 to 5.63, which is partially outside of the target score following the reduction in Barclay's credit rating. Action was taken during October to return to within the target. For the next three years the target will remain 3 to 5.

Principal Sums Invested for Periods Longer than 364 days

6.10 The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2016/17	**2017/18**	**2018/19**
Limit on principal invested beyond year end	£10m	£10m	£10m

7. MRP Statement

7.1 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) place a duty on local authorities to make a prudent provision for debt redemption. Guidance on Minimum Revenue Provision has been issued by the Secretary of State and local authorities are required to "have regard" to such Guidance under section 21(1A) of the Local Government Act 2003.

7.2 The four MRP options available are:

Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

7.3 MRP in 2016/17: The guidance states Options 1 and 2 may be used only for capital expenditure originally incurred when government support was available. Methods of making prudent provision for self financed expenditure include Options 3 and 4. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

7.4 It is a requirement for Council to approve the MRP statement before the start of the financial year. If it is ever proposed to vary the terms of the original MRP Statement during the year, a revised statement will be put to Council at that time.

7.5 It is proposed the Council will continue to apply Option 1 (charge 4% per annum over 25 years) in respect of capital expenditure originally incurred when government support was available and

Option 3 (charge over the life of the asset) in respect of all other capital expenditure funded through borrowing. MRP in respect of leases and PFI (Private Finance Initiative) schemes brought onto the Balance Sheet under the IFRS (International Financial Reporting Standards) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

8. Capital Expenditure

8.1 The evaluation of capital expenditure projects incorporates the cost of financing. This comprises two elements (a) the recovery of purchase costs through MRP and (b) interest. Where capital expenditure is low and no specific borrowing is required the interest cost allocated to the project will be the average cost of the Council's debt portfolio. This method will be used even if no borrowing takes place in the year as capital expenditure reduces the ability to repay debt.

8.2 For projects incurring a high initial cost for which specific debt financing is arranged, then the interest cost used will be the average rate on the specific debt.

9 Other Items

9.1 There are a number of additional items that the Authority is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

<u>Policy on Use of Financial Derivatives</u>

9.2 The Authority has previously made use of financial derivatives embedded into loans to reduce costs e.g. LOBO loans. The Authority will <u>not</u> use standalone financial derivatives (such as swaps, forwards, futures and options). Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

<u>Policy on Apportioning Interest to the HRA</u>

9.3 On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments. .

<u>Investment Training</u>

9.4 CIPFA's Treasury Management Code of Practice requires the Chief Financial Officer to ensure that all members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

9.5 Given the significant amounts of money involved, it is crucial members have the necessary knowledge to take treasury management decisions. Regular training sessions are arranged for members to keep their knowledge up to date.

9.6 The needs of the Authority's treasury management staff for training in investment management are assessed as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Investment Advisers

9.7 The Authority has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is reviewed by the Authority's treasury management staff.

Investment of Money Borrowed in Advance of Need

9.8 The Authority may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

9.9 The total amount borrowed in 2016-17 will not exceed the authorised borrowing limit of £528 million. The maximum period between borrowing and expenditure is expected to be one year, although the Authority is not required to link particular loans with particular items of expenditure.

Financial Implications

9.10 The budget for investment income in 2016/17 is £170,000 million, based on an average investment portfolio of £23 million at an interest rate of 0.75%%. The budget for debt interest paid in 2016/17 is £14.9 million, based on an average debt portfolio of £310 million at an average interest rate of 4.8%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different. Interest paid and earned is apportioned between the General Fund and HRA. The average interest rate on existing debt will decline in 2016-17 from 5.30% to 5.19% with interest costs falling by £1.0 million to £14 million. New debt is projected to cost an average 2.1%.

9.11`The Council complies with the provisions of Section 32 of the Local Government Finance Act 1992 to set a balanced budget.

Monitoring & Reporting

9.12 Corporate Committee will receive quarterly reports on treasury management activity and performance. This will include monitoring of the prudential indicators.

9.13 It is a requirement of the Treasury Management Code of Practice that an outturn report on treasury activity is produced after the financial year end, no later than 30th September. This will be reported to Corporate Committee, shared with the Cabinet member for Resource & Culture and then reported to full Council. Overview and Scrutiny Committee will be responsible for the scrutiny of treasury management activity and practices.

9.14 Officers monitor counterparties on a daily basis with advice from the Council's treasury management advisers to ensure that any creditworthiness concerns are addressed as soon as they arise. Senior management hold monthly meetings with the officers undertaking treasury management to monitor activity and to ensure all policies and procedures are being followed.

10. Other Options Considered

10.1 The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Operating Financial Officer (CFO), having consulted Corporate Committee, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Annex 1

Details of Treasury Position

A: General Fund Pool

	31-Mar-16 Projected £'000	31-Mar-17 Estimate £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000
Existing External Borrowing commitments:				
PWLB	50,139	45,882	41,395	37,465
Market loans	42,281	42,281	42,281	42,281
Cash reduction	0	20,000	20,000	20,000
Total External Borrowing	92,420	108,163	103,676	99,746
Long Term Liabilities	49,329	45,498	41,537	37,537
Total Gross External Debt	141,749	153,661	145,213	137,283
CFR	271,742	290,670	285,388	296,388
Internal Borrowing	129,993	124,993	119,993	114,993
Cumulative Borrowing requirement	0	12,016	20,182	44,112

B: HRA Pool

	31-Mar-16 Projected £'000	31-Mar-17 Estimate £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000
Existing External Borrowing commitments:				
PWLB	108,094	99,764	90,986	83,297
Market loans	82,719	82,719	82,719	82,719
Local Authorities	0	0	0	0
Total External Borrowing	190,813	182,483	173,705	166,016
CFR	278,548	293,002	295,943	297,624
Internal Borrowing	87,735	82,735	77,735	72,735
Cumulative Borrowing requirement	0	27,784	44,503	58,873

C: Security Measure

		2016-17	2017-18	2018-19
Above target	AAA to AA+	Score 0 - 2	Score 0 - 2	Score 0 - 2
Target score	AA to A+	Score 3 - 5	Score 3 - 5	Score 3 - 5
Below target	Below A+	Score over 5	Score over 5	Score over 5

Annex 2

Summary of Prudential Indicators

No.	**Prudential Indicator**	**2016/17**	**2017/18**	**2018/19**
CAPITAL INDICATORS				
1	Capital Expenditure	£'000	£'000	£'000
	General Fund	50,682	52,410	50,000
	HRA	64,307	51,121	50,000
	TOTAL	114,989	103,531	100,000

No.	**Prudential Indicator**	**2016/17**	**2017/18**	**2018/19**
2	Ratio of financing costs to net revenue stream	%	%	%
	General Fund	1.93	2.01	2.25
	HRA	8.88	9.02	8.98

No.	**Prudential Indicator**	**2016/17**	**2017/18**	**2018/19**
3	Capital Financing Requirement	£'000	£'000	£'000
	General Fund	290,670	285,388	296,388
	HRA	293,002	295,943	297,624
	TOTAL	583,672	581,331	594,012

No.	**Prudential Indicator**	**2016/17**	**2017/18**	**2018/19**
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	32.04	14.26	31.74
	Weekly Housing rents	1.51	1.00	1.00

No.	Prudential Indicator	2016/17	2017/18	2018/19
TREASURY MANAGEMENT LIMITS				
5	Borrowing limits	£'000	£'000	£'000
	Authorised Limit	528,231	544,623	556,024
	Operational Boundary	472,772	489,638	501,519

No.	Prudential Indicator	2016/17	2017/18	2018/19
6	HRA Debt Cap	£'000	£'000	£'000
	Headroom	34,536	31,595	29,914

No.	Prudential Indicator	2016/17	2017/18	2018/19
7	Upper limit – fixed rate exposure	100%	100%	100%
	Upper limit – variable rate exposure	40%	40%	40%

No.	Prudential Indicator	2016/17		2017/18		2018/19	
8	Maturity structure of borrowing						
	(U: upper, L: lower)	L	U	L	U	L	U
	under 12 months	0%	40%	0%	40%	0%	40%
	12 months & within 2	0%	35%	0%	35%	0%	35%
	2yrs & within 5 yrs	0%	35%	0%	35%	0%	35%
	5 yrs & within 10 yrs	0%	35%	0%	35%	0%	35%
	10 yrs & within 20 yrs	0%	35%	0%	35%	0%	35%
	20 yrs & within 30 yrs	0%	35%	0%	35%	0%	35%
	30 yrs & within 40 yrs	0%	35%	0%	35%	0%	35%
	40 yrs & within 50 yrs	0%	50%	0%	50%	0%	50%
	50 yrs & above	0%	50%	0%	50%	0%	50%

No.	Prudential Indicator	2016/17	2017/18	2018/19
9	Sums invested for more than 364 days	10	10	10

No.	Prudential Indicator	2016/17	2017/18	2018/19
10	Adoption of CIPFA Treasury Management Code of Practice	√	√	√

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Annex 3

Arlingclose Economic & Interest Rate Forecast November 2015

Underlying assumptions:

- UK economic growth softened in Q3 2015 but remained reasonably robust; the first estimate for the quarter was 0.5% and year-on-year growth fell slightly to 2.3%. Negative construction output growth offset fairly strong services output, however survey estimates suggest upwards revisions to construction may be in the pipeline.
- Household spending has been the main driver of GDP growth through 2014 and 2015 and remains key to growth. Consumption will continue to be supported by real wage and disposable income growth.
- Annual average earnings growth was 3.0% (including bonuses) in the three months to August. Given low inflation, real earnings and income growth continue to run at relatively strong levels and could feed directly into unit labour costs and households' disposable income. Improving productivity growth should support pay growth in the medium term. The development of wage growth is one of the factors being closely monitored by the MPC.
- Business investment indicators continue to signal strong growth. However the outlook for business investment may be tempered by the looming EU referendum, increasing uncertainties surrounding global growth and recent financial market shocks.
- Inflation is currently very low and, with a further fall in commodity prices, will likely remain so over the next 12 months. The CPI rate is likely to rise towards the end of 2016.
- China's growth has slowed and its economy is performing below expectations, which in turn will dampen activity in countries with which it has close economic ties; its slowdown and emerging market weakness will reduce demand for commodities. Other possible currency interventions following China's recent devaluation will keep sterling strong against many global currencies and depress imported inflation.
- Strong US labour market data and other economic indicators suggest recent global turbulence has not knocked the American recovery off course. Although the timing of the first rise in official interest rates remains uncertain, a rate rise by the Federal Reserve seems significantly more likely in December given recent data and rhetoric by committee members.
- Longer term rates will be tempered by international uncertainties and weaker global inflation pressure.

Forecast:

- Arlingclose forecasts the first rise in UK Bank Rate in Q3 2016. Further weakness in inflation, and the MPC's expectations for its path, suggest policy tightening will be pushed back into the second half of the year. Risks remain weighted to the downside. Arlingclose projects a slow rise in Bank Rate, the appropriate level of which will be lower than the previous norm and will be between 2 and 3%.

- The projection is for a shallow upward path for medium term gilt yields, with continuing concerns about the Eurozone, emerging markets and other geo-political events, weighing on risk appetite, while inflation expectations remain subdued.

- The uncertainties surrounding the timing of UK and US monetary policy tightening, and global growth weakness, are likely to prompt short term volatility in gilt yields.

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Average
Official Bank Rate														
Upside risk	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.31
Arlingclose Central Case	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.50	1.50	1.12
Downside risk				-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-0.73
3-month LIBID rate														
Upside risk	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.36
Arlingclose Central Case	0.60	0.70	0.80	0.95	1.05	1.15	1.30	1.40	1.50	1.60	1.65	1.70	1.75	1.24
Downside risk		-0.30	-0.45	-0.55	-0.65	-0.80	-0.90	-1.05	-1.10	-1.20	-1.20	-1.20	-1.20	-0.83
1-yr LIBID rate														
Upside risk	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.45	0.45	0.45	0.45	0.45	0.45	0.41
Arlingclose Central Case	1.20	1.35	1.45	1.55	1.70	1.80	1.95	2.00	2.10	2.15	2.15	2.15	2.15	1.82
Downside risk	-0.25	-0.35	-0.50	-0.60	-0.70	-0.85	-0.95	-1.10	-1.15	-1.25	-1.25	-1.25	-1.25	-0.88
5-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.30	1.38	1.45	1.53	1.60	1.68	1.75	1.83	1.90	1.98	2.05	2.13	2.20	1.75
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
10-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	1.90	1.95	2.00	2.05	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45	2.50	2.20
Downside risk	-0.45	-0.55	-0.60	-0.70	-0.80	-0.90	-1.00	-1.10	-1.15	-1.20	-1.25	-1.25	-1.25	-0.94
20-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.53	2.55	2.58	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.65
Downside risk	-0.40	-0.50	-0.55	-0.65	-0.75	-0.85	-0.95	-1.05	-1.10	-1.15	-1.20	-1.20	-1.20	-0.89
50-yr gilt yield														
Upside risk	0.50	0.50	0.50	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.56
Arlingclose Central Case	2.50	2.55	2.60	2.63	2.65	2.68	2.70	2.73	2.75	2.78	2.80	2.83	2.85	2.69
Downside risk	-0.35	-0.45	-0.50	-0.60	-0.70	-0.80	-0.90	-1.00	-1.05	-1.10	-1.15	-1.15	-1.15	-0.84

Annex 4

Counterparty Policy

The investment instruments identified for use in 2015-16 are listed in the table. Each investment type is classified as either 'Specified' or 'Non – Specified' investment categories. Specified investments are considered low risk and relate to funds invested for up to one year. Only those investments with a credit rating of at least AA- are considered as specified. Non-specified investments normally offer the prospect of higher returns but carry higher risk and may have a maturity beyond one year. At least 50% of investments held will be specified. All investments are sterling denominated.

As discussed in the borrowing strategy the plan during 2016-17 is to rely on short term debt and minimise cash balances. This will lead to a high proportion short dated and tradable instruments e.g. money market funds, T-bills, CDs and DMO within the cash portfolio to cover liquidity needs.

Investments do not include capital expenditure as defined under section 25(1) (d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

Minimum Credit Quality & diversification Limits

For credit rated counterparties, the minimum criteria will be the lowest equivalent long-term ratings assigned by Fitch, Moody's and Standard & Poor's (where assigned) as below:

Long-term minimum: A- (Fitch); A3 (Moody's); A- (S&P)

The Council will also take into account the range of information on investment counterparties detailed in 'other information' section above.

The limits stated in the table below will apply across the total portfolio operated by the Council and so incorporate both Council and Pension Fund specific investments. The limits for the period of investment are the maximum for the categories of counterparties. Lower operational limits will apply if recommended following a review of creditworthiness. Operationally a limit will be applied to the amount invested in any MMF of no more than 2.0% of the Money Market Fund's total assets.

Non UK Banks

The use of non-UK banks was suspended pre April 2015. Six countries retain AAA ratings from all three rating agencies – Australia, Canada, Denmark, Germany, Singapore, Sweden and Switzerland. Within these countries twelve banks meet the AA- or better criteria mentioned above and these have been included as eligible counterparties (annex 5). Using the highest quality overseas banks will both improve the overall security of the investment portfolio and enable greater diversification.

Maturities Guidance

At present maturities have been kept to less than 12 months reflecting the expectation that cash balances will be maintained at low levels. However, there remains a core cash balance that persists over time. Longer maturities attract higher returns at present to compensate for illiquidity and the prospect of increased base rates in future. The strategy has been revised to permit a maximum of £10 million to be invested between 12 – 24 months.

Institution Type	Minimum Credit Rating	Maximum Counterparty Limit	Maximum Period of Investment	Specified / Unspecified
Debt Management Office	UK Government	No limit	364 days	specified
Gilts, Treasury Bill & Repos	UK Government	No limit £10 million	364 days 24 months	Specified non-specified
Supra-national Banks & European Agency	AA-	£10 million £5 million	364 days 24 months	specified non-specified
Covered Bonds issued by UK Banks	Bond AA+ / counterparty A- Bond AA+ / Counterparty BBB+ Bond AA+ / counterparty A-	£5 million per bond, £20 million aggregate £5 million per bond, £10 million aggregate £5 million per bond, £10 million aggregate	364 days 364 days 24 months	Specified Non-specified non-Specified
UK Local Authority Deposits	n/a	£15 million per counterparty £5 million per counterparty	364 days 24 months	specified non-specified
UK & AAA country Banks - term deposits, CDs and call accounts	AA- AA- A-	£10 million per bank or banking group £5 million per bank or banking group £5 million per bank or banking group	364 days 24 months 364 days	specified non-specified non-specified
Constant Net Asset Value Money Market Funds (MMFs), UK / Ireland / Luxembourg domiciled Variable NAV Enhanced Cash Funds, UK/Ireland/Luxembourg domiciled	AAA AAA	£10 million per MMF. Aggregate £50 million. £5m per ECF. Group limit £15m	daily liquidity Minimum Weekly Redemption	specified non-specified

Additional Details on Types of Investments

Banks and Building Society Deposits, Call Accounts and Certificates of Deposit: These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

Banks Covered Bonds: These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in.

Money Market and Enhanced Cash Funds: Shares in diversified investment vehicles consisting of time deposits, call accounts, CDs etc with banks and financial institutions. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while Enhanced Cash Funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

ANNEX 5

Lending List of counterparties for investments

This is the proposed list of bank counterparties which the Council can lend to, providing the counterparties meet the requirements set out in Annex 4 at the time of investment. The list will be kept under constant review and counterparties removed if the process described in the investment strategy raises any concerns about their credit worthiness. In addition to the counterparties listed below, UK government, local authorities, money market funds and enhanced cash funds are included in annex 4.

Instrument		Country/ Domicile	Counterparty	Arlingclose Suggested max maturity
Supranational Banks			European Bank for Reconstruction and Development	24 months
			European Investment Bank	24 months
			Inter-American Development Bank	24 months
			International Bank for Reconstruction & Development	24 months
UK Banks and Building Societies- Term Deposits, Call Accounts & CDs		UK	HSBC Bank Plc	13 months
		UK	Standard Chartered Bank	6 months
		UK	Barclays Bank Plc	100 days
		UK	Lloyds Banking Group including Bank of Scotland	13 months
		UK	Santander UK	6 months
		UK	Nationwide Building Society	6 months
		UK	Coventry Building Society	6 months
Non-UK Banks - Term Deposits, Call Accounts and CDs		Australia	Australia & New Zealand Banking Group	6 months
		Australia	National Australian Bank	6 months
		Australia	Commonwealth Bank of Australia	6 months
	new	Australia	Westpac Banking Group	6 months
	new	Canada	Bank of Montreal	13 months
	new	Canada	Royal Bank of Canada	13 months
	new	Canada	Toronto-Dominion Bank	13 months
	new	Singapore	DBS Bank	13 months
	new	Singapore	Overseas-Chinese Banking Corp	13 months
	new	Singapore	United Overseas Bank	13 months
		Sweden	Nordea Bank	13 months
		Sweden	Svenska Handelsbanken	13 months
Covered Bonds issued by UK Banks & Building Soc		UK	UK Banks and Buildings societies listed above.	24 months
			Royal Bank of Scotland	24 months

NB: max maturity capped at 24 months.

Compared with last year, no counterparties have been deleted and no UK banks added. The four supranational banks are new additions. All are AAA rated by the three rating agencies. These banks raise funds via CDs. The Arlingclose support maximum maturities of up to 5 years for AAA rated supranational banks.

Eight overseas banks have been added to the counterparty list. All are rated AA- or better by all three rating agencies. These banks rarely take deposits in the UK but can be accessed through CDs. There are currently no overseas banks in the portfolio. In addition to the limits set out in annex 4, a limit of £5 million per bank and £10 million per Non-UK country will be applied.

Investments in covered bonds are limited to UK banks and building societies. In addition to those banks and building societies eligible for unsecured deposits, Royal Bank of Scotland has been added for covered deposits. Covered deposits offer additional default protection due to the provision of collateral as security.

The counterparty list excludes MMF and ECF's as the name of the fund reflects the fund manager not the quality of the underlying holdings. Selection of MMFs and ECFs will be based on the criteria set of in Annex 4. The limit for any single MMF is £20 million and each ECF is £5 million.

Should Arlingclose reduce the maximum recommended maturity guidance for any bank, this will be reflected in the portfolio.

Report for: Corporate Committee – Monday 8 February 2016

Item number: 8

Title: Housing Benefit Subsidy: 2014-15 Grant Claim Certificate – report on actions taken following external audit of subsidy claim

Report Authorised by : Tracie Evans : Chief Operating Officer

Lead Officer: Amelia Hadjimichael : Head of Benefits | Shared Service Centre
Telephone number: 020 8489 5988
Email: Amelia.hadjimichael@haringey,gov.uk

Ward(s) affected: Not Applicable

Report for Key/ Non Key Decision: Not Applicable

1. Describe the issue under consideration

1.1 The external auditors update report to Corporate Committee on Thursday 26 November 2015 highlighted errors in the processing of Housing Benefit and Council Tax Benefit Claims. These errors could impact the amount of subsidy received by the Council, could have a significant impact on Council finances and could have a detrimental impact on the claimant.

1.2 This report sets out the key areas of concern raised by the external auditors and shows the action plan being implemented by Officers to address the concerns raised.

2. Cabinet Member Introduction

2.1 Not Applicable

3. Recommendations

3.1 That Members note the work now being undertaken by Officers to address the concerns of the external auditors.

4. Reasons for decision

4.1 Not Applicable

5. Alternative options considered

5.1 Not Applicable

6. Background information

6.1 The Council administers Housing Benefit for approximately 35,000 claimants and Council Tax Reduction for approximately 29,000 claimants.

6.2 The external auditors highlighted a number of areas of concern following their annual audit of the Councils Grant Claim. The total errors found during their analysis were as follows:

Area of Testing	No. of Errors	Comments
Earnings	55	Increase in number of claims with earnings (2.5% from 2013/14). Claims are more complex with the introduction of welfare reform (more zero hour contracts, variable overtime, more than one job)
Tax Credits	31	Main errors relate to the manual input of one off payments. Errors have reduced from 2013/14 due to increased automation
Self employed earnings	29	Increase in number of claims with earnings (can only compare HRA as this was the only area with errors in both years – up 7.5%). More claims due to welfare reform and push to move customers into work
Occupational Pension	14	Issue only found within rent allowance testing in both years. Number of cases with occupational pensions increased by 12.7% - possibly due to undeclared pensions being identified by RTI
Childcare costs	3	Attention to detail – childcare costs for term time only input for full year, costs taken from Tax Credit letters and no proof requested, lack of documentation to support amounts used
RO decision	3	Attention to detail – meals not deducted from Rent Officer decisions – all claims reviewed and error quantified
Overpayment Classification	2	Dates input incorrectly, significant increase in overpayments created in 2014/15 (up 93.2%) due to RTI
Rent	2	Input as weekly not monthly and no proof requested
Non Dependants	2	Calculation of income and dates within property
Carers Premium	1	Personal status's not removed when Carers Allowance ended - all claims reviewed and error quantified
State Retirement Pension	1	ATLAS/Customer information provided not input (general issue with not looking fully at information provided)

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6.3 The Head of Benefits in conjunction with Finance have implemented an action plan to address the concerns raised by the auditors. A summary of the actions taken are as follows:

- Strengthen governance framework to ensure right focus and attention to quality assurance across all levels of the authority including regular reporting of service performance to Quality & Improvement Board
- Enhanced leadership of benefits assessment processes through appointment of Team Leaders who support performance monitoring and adherence to standards; regular monitoring and feedback to staff on individual performance
- Improved training and guidance for staff; specifically in high-risk or complex areas of work
- Re-establishment of focussed quality monitoring; targeting known areas of risk; carryout out random sampling to highlight areas for additional staff training

6.4 Appendix A sets out the detailed action plan – 'Housing Benefit Subsidy: Quality Assurance Action Plan'.

7. Contribution to strategic outcomes

7.1 Not Applicable

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

8.1.1 Not Applicable

8.2 Legal

8.2.1 Not Applicable

8.3 Equality

8.3.1 Not Applicable

9. Use of Appendices

9.1 Appendix A – Detailed Action Plan

10. Local Government (Access to Information) Act 1985

10.1 Not Applicable

Appendix A – Housing Benefit Subsidy: Quality Assurance Action Plan

Area	Action Needed / Achieved	Status
Governance	• Governance framework to monitor quality now established and overseen by the Quality & Improvement Board • Monthly updates of the progress of quality assurance from the Service to Head of Shared Service Centre, and fed through to the Quality & Improvement Board • Housing Subsidy Financial Quality Monitoring Group meeting held monthly includes updates on quality and includes updates on high risk areas and random checking	Ongoing
Leadership	• 4 Team Leaders have recently been appointed to strengthen leadership within teams. They work directly with Service Officers to guide and support them in operational day to day duties including quality & performance issues • A Training Action Plan is in place for all new Team Leaders to embed a clear process that supports and encourages sound management and drives through high standards of performance • Quality Assurance is now included as a standard item on Service Management Team meeting to ensure the right priority is given to quality, and is scrutinised and challenged as required	Ongoing
Culture	• Clear and consistent communication to all staff of the standards expected of them and drive for continuous improvement • Clear process established for the recognition and reward of good practice; consistent follow through and consequences for poor performance including providing additional training, development or invoke capability proceedings • Monthly Performance & Quality Reports sent out by Head of Service recognising improved performance and areas for action	Monthly

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Service Structure & Staff Knowledge and Skills	• Complete review of Benefits structure to ensure service fit for purpose • Consolidation of Policies & Procedures for Earned Income, Child Care Costs and Private Pensions to ensured there is a dedicated resource that is focusing on updating guidance and procedure notes for staff, all supplemented by a series of quick guides/tips for staff within the new intranet pages and Fuse system • Develop a comprehensive Training & Development Plan for all Benefits Staff which identifies skills and knowledge gaps and options for training • Training Plan to pick up wider aspects of working practices to increase staff awareness of the standards expected of them (supporting decisions made, audit trails / notes etc) • Set up a quick win/briefing session on most common types of errors • Subsidy training will be set up for all Team Leaders	To be completed by end of March 16
Quality Assurance Process: Management & Knowledge & Skills	• Focussed and targeted quality checking programme implemented including sampling of key risk areas and random sampling • Review of resourcing within teams which will be based on an assessment of the work required and detailed analysis. It will be facilitated by a recruitment process • More robust Quality Assurance monitoring process implemented with weekly updates now provided by Business Support Service Manager to the Head of Service with a monthly update to the Housing Subsidy Financial Quality Monitoring Group • Recruitment of QA staff recognising the importance of having right knowledge / skills within the team - an understanding of good practice in supporting / recording work, the impact on subsidy claims of errors and sufficient benefits knowledge to ensuring robust processes of scrutiny and challenge • Develop robust management information at all levels to ensure quality can be assured across the Benefits service	To be completed by end of February 16

Report for: Corporate Committee

Item number: **9**

Title: Overview of Key Finance Terms

Report authorised by : Tracie Evans – Chief Operating Officer

Lead Officer: Neville Murton – Lead Finance Officer
Ward(s) affected: ALL

Report for Key/ Non Key Decision:

1. Describe the issue under consideration

1.1. At its last meeting the Corporate Committee requested further information and guidance on the meaning of some key financial terms in particular:

- Balances;
- General Reserves; and
- Earmarked Reserves.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That Corporate Committee note the report and information.

4. Background information

Balances

4.1. In accordance with the principles of double entry book-keeping every financial transaction requires a debit (+) and credit(-) entry, of equal value, in an organisations ledger. This ensures that the financial records are always ***'in balance'***. The differences between the debit entries and credit entries within an individual account represents the ***'account balances'***.

4.2. Perhaps, rather confusingly, the financial reserves of the authority (see below) are sometimes referred colloquially to as ***balances*** reflecting the fact that the reserve account has a balance on it, which is included in the organisations year-end Balance Sheet.

Reserves

4.3. As part of its statutory budget setting process the Council prepares information relating to its financial reserves – its Reserves Policy.

4.4. Appendix A sets out the latest Reserves Policy and this includes the key information requested by the Corporate Committee. It sets out the different types of reserves and sets out the purposes that the council's earmarked reserves are held for.

5. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

5.1. The Assistant Director of Corporate Governance confirms there are no legal implications arising from this report.

5.2. No additional statutory officer comments are required as this report is for information only.

6. Use of Appendices

Appendix 1 – Reserves Policy (2015/16)

7. Local Government (Access to Information) Act 1985

7.1. The following background papers were used in the preparation of this report:

- 2015/16 Budget Setting papers.

7.2. For access to the background papers or any further information please contact Neville Murton –Lead Finance Officer.

Appendix A

Haringey Council - Reserves policy

Background

1. Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.
2. CIPFA has issued Local Authority Accounting Panel (LAAP) Bulletin No.55, Guidance Note on Local Authority Reserves and Balances and LAAP Bulletin 99 (Local Authority Reserves and Provisions). Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government.
3. This note sets out the Council's policy for compliance with the statutory regime and relevant non-statutory guidance.

Overview

4. The Council's overall approach to reserves will be defined by the system of internal control. The system of internal control is set out, and its effectiveness reviewed, in the Annual Governance Statement. Key elements of the internal control environment are objective setting and monitoring, policy and decision-making, compliance with statute and procedure rules, risk management, achieving value for money, financial management and performance management.
5. The Council will maintain:
    - a general fund general reserve;
    - a housing revenue account (HRA) general reserve; and
    - a number of earmarked reserves.
6. Additionally the Council is required to maintain ***unusable*** reserves to comply with accounting requirements although, as the term suggests, these reserves are not available to fund expenditure.

General fund general reserve

7. The purpose of the general reserve is to manage the impact of emergencies or unexpected events. Without such a reserve, the financial impact of such events could cause a potential financial deficit in the general fund, which would be severely disruptive to the effective operation of the authority. The reserve should mitigate against immediate service reductions if there were any unforeseen financial impacts.
8. The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer. The level of the reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. It will also take account of the extent to which specific risks are supported through earmarked reserves. The level will be expressed as a cash sum over the period of the general fund medium-term financial strategy. The level will also be expressed as a percentage of the general funding requirement (to provide an indication of financial context).

HRA general reserve

9. The purpose of the HRA general reserve is similar to the general fund general reserve above except applied to the ring-fenced HRA.

Earmarked reserves

10. The purpose of earmarked reserves is to enable sums to be set aside for specific purposes or in respect of potential or contingent liabilities where the creation of a provision is not required or permitted.

11. The Council will maintain the following earmarked reserves:

i. Services reserve: includes the net unspent balance of service and other budgets where the Cabinet has agreed that such sums could be carried-forward for use in subsequent years;

ii. Insurance reserve: funds set aside to meet internally-insured liabilities where the creation of a provision is not required or permitted;

iii. PFI Lifecycle reserve: funds set aside from specific PFI grant given by the government to meet payments to be made to service the debt relating to the Council's secondary schools PFI project; this reserve will be required to manage lifecycle funds during the suspended services period;

iv. Council infrastructure reserve: specific funds set aside for the planned maintenance and renewal of the Council's infrastructure including for IT and Property programmes;

v. Transformation reserve: will be used to fund investment needs identified through the Medium Term Financial Planning process. It will also be used to fund redundancy and decommissioning costs and the investment necessary to deliver longer term efficiencies and change;

vi. Financing reserve: a reserve to enable multiple-year medium-term financial strategies in the context of the annual budgeting and accounting cycle;

vii. Debt repayment / capital reserve: this reserve is used to set aside money that the Council has for repaying outstanding debt in the future and/or for the purposes of setting aside money earmarked for capital investment;

viii. Major repairs reserve (HRA): the balance on this reserve represents the amount unspent of the major repairs allocation (MRA) and will be used to meet housing capital expenditure in future years;

ix. Schools' reserve: the net unspent balance of delegated funds managed by schools;

x. Community Infrastructure and Growth reserve – the council will need to grow its revenue base as government funding reduces, this will be achieved by increasing the Council Tax and Business Rate base. Resources are likely to be needed to support the community, infrastructure and growth in housing and business;

xi. Urban Renewal reserve: it would be beneficial for the council to support local businesses so they can share the benefits of the growth, this could include supporting town centres and business investment districts, and maintaining retail business.

xii. Labour Market Growth and Resilience – this will be used to support initiatives which assist people with returning to and remaining in work.

xiii. Collection Fund Equalisation Reserve – this reserve deals with the volatility around the collection of Council Tax and Business Rates leading to annual surpluses and deficits in the Collection Fund. This reserve is designed to equalise these fluctuations.

xiv. Public Health Reserve – the Council assumed responsibility for certain Public Health functions from April 2013 supported through a new Public Health grant; this reserve will be used to manage any over or underspends against this grant which is restricted to Public health expenditure.

xv. Unspent Grants Reserve – where revenue grants have no conditions or where the conditions are met and expenditure has yet to take place it is recommended practice to hold these sums in an earmarked reserve to meet the future expenditure.

xvi. NHS Social Care Agreement reserve - the balance relating to the social care agreement with the NHS where the Cabinet has agreed that sums could be carried-forward for use in subsequent years.

xvii. Smoothing Reserve (HRA) – this is used to accumulate changes in asset values within the HRA that must, under accounting rules, be charged against the revenue costs of the HRA. The reserve will assist the impact of volatile movements from one year to another.

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Agenda Item 10

Report for: Corporate Committee

Item number: **10**

Title: ONESAP Lessons Learnt

Report authorised by : Tracie Evans – Chief Operating Officer

Lead Officer: Neville Murton – Lead Finance Officer
Ward(s) affected: ALL

Report for Key/ Non Key Decision:

1. Describe the issue under consideration

1.1. At their last meeting the committee heard about an increase in outstanding payments due to suppliers of the Council which had arisen following the implementation of the council's new Vendor Invoice Management system.

1.2. In the light of concerns the committee asked to receive a report setting out the lessons that had been learnt from the implementation and separately receive an update on the level of payments outstanding.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That Corporate Committee note the report.

4. Background information

4.1. The Council's core financial system is SAP. In 2014 and following a procurement exercise the Council appointed HCL as their Managed Service provider for SAP.

4.2. The contract provided for a number of system changes and envisaged a number of outcomes:

- The transfer of the SAP system and data from hardware owned and maintained by the existing supplier (LOGICA) to HCL;
- Re-implementation of the SAP system to take advantage of version updates that had taken place and not been implemented under the previous contract;
- Implementation of two new modules not previously used by the Council – Flexible Real Estate (FRE) to administer the council's commercial property portfolio; and Vendor Invoice Management (VIM) an e-invoicing solution.
- Achievement of contract hosting and support savings totalling c£650k per annum.

4.3. With the exception of the VIM solution all other outcomes were achieved.

4.4. VIM provides an end to end purchase to pay (P2P) solution where goods and services procured by the Council are processed with minimal manual intervention using electronic based workflows. This approach minimises the use of paper based processes and is intended to reduce delays in the payment of invoices and improve controls.

4.5. In essence when implemented and working correctly an order is raised for every purchase and approved electronically by the relevant budget holder subject to the Council's scheme of delegation; i.e. the system enforces the various approval stages which typically are related to order values.

4.6. Once approved and sent to the supplier, the subsequent receipt of the invoice relating to the order is received by multiple sources including email into an automatic scanning facility. Here using electronic recognition techniques the invoice is matched against the order and, subject to certain parameters, processed without further intervention for payment.

4.7. Where there are discrepancies between the order and invoice, workflows operate to route information and seek appropriate resolution by the responsible officer. Email notifications operate to alert officers of outstanding actions. Information is accessible electronically 24 hours a day.

4.8. It became clear soon after the 'go-live' date that problems existed in the way the system was working and HCL and the Council embarked on a process of seeking to identify and resolve the issues. However, in the intervening period the value and volume of payments owed by the council to its suppliers increased significantly leading to complaints.

4.9. Following resolution of the issues a lessons learnt exercise was initiated at the request of the Chief Executive and reported to the Council's Senior Leadership Team (SLT) in June 2015.

5. Key Issues.

5.1. The key issues identified at the time were:

- There was a lack of compliance within the organisation for key processes despite several high level communications e.g. the number of requests for services placed without an official order was high resulting in invoices arriving without a corresponding order to match against;
- Users familiarity with the SAP system was poor despite it being in place for a number of years – it is acknowledged as a complicated system and users had tended to 'learn' by rote only those processes they used regularly resulting in a failure to really understand how the system worked;
- Some users guides were not provided or were of a poor quality;
- The business rules set up to govern the scanning process were incorrect and had to be re-visited resulting in large numbers of invoices being unmatched and requiring manual intervention;
- The response by HCL to the initial problems was poor – they did not seem to have the skills to identify and resolve the issues swiftly;
- There was insufficient internal expertise to deal with the issues alongside their existing business as usual workloads; and

- The Management Information reports were not developed adequately within the system which could have highlighted where similar reasons were delaying automatic processing.

6. Findings and Lessons Learnt

Product Selection

6.1. The procurement was undertaken through a competitive dialogue process (CD) where the supplier proposes the optimum solution; this is in contrast to the organisation identifying the required product and seeking to procure that product as efficiently as possible.

6.2. The product proposed by HCL was based on third party software that they had not implemented previously in another Local Authority setting.

Lessons Learnt (Product Selection):

1. The degree of business change required (organisational change readiness) should be considered at an early stage when procuring new processing systems
2. Increased due diligence should be taken in selecting a system that a supplier has not implemented in a comparable organisation.

Design, Build and Test

6.3. VIM solution design signed off by Head of Procurement & Procurement Lead.

6.4. Procurement Lead resigned during the test planning phase – finding a suitable replacement at this critical point proved extremely difficult.

6.5. The Head of Procurement signed off the test plans but left the organisation during user testing further reducing expertise, particularly in LBH procurement processes.

6.6. Aggressive user test schedule to meet implementation date (financial cost if go-live delayed)

6.7. User testing conducted in parallel with training content preparation, data migration and implementation planning which placed too many demands on same resource

Lessons Learnt (Design Build and Test):

1. Subject management expertise must be involved in design (ideally with experience of previous implementation) and in conducting full end to end user test – cannot be reliant on external supplier
2. Identify when key resource dependent and have mitigation plans in place (this was a common risk across other areas of the One SAP programme e.g. Property, Finance)
3. Undertake independent assurance of testing strategy, user test plans, results and sign-off to ensure completeness before confirming go-live
4. Appropriate time needs to be allowed for full acceptance testing, minimising the number of other parallel activities, with contingency in place

Training

6.8. The training needs analysis undertaken by HCL did not highlight the Council's lack of organisational readiness for change (e.g. new skills needed, current levels of compliance, take on of additional work/processes to be undertaken)

6.9. Staff across the Council did not attend training despite continual chasing from Programme Management Office and the Senior Responsible Officer

6.10. E-learning product from HCL was of poor quality, however even after improvement was not embraced by staff as a learning tool.

6.11. Many Shoppers who attended hands-on training were not familiar with basics of SAP SRM even though they should be using it on a regular basis; additional basic training needed post go-live.

6.12. Not all Super Users had the skills to support staff despite extensive briefing, training and involvement in testing.

6.13. Major change for Accounts Payable staff with new skills required which proved challenging.

Lessons Learnt (Training):

1. Training needs analysis should be conducted jointly with the Council and include organisational change readiness (assessment of degree of process/up-skilling/culture change required to successfully implement solution)
2. Where significant training is required across the Council (as opposed to a discrete user group) an approach needs to be found that ensures engagement and compliance (e.g. training compulsory or no access to system)
3. Super Users should be selected on the basis of the skills required, not just their availability.
4. Training approach needs to consider carefully the methods and tools employed (e.g. just how effective any use of e-learning will be)

Implementation

6.14. Large number of outstanding paper invoices since 2010 unexpectedly loaded by Business (uncoded &unauthorised); major impact on anticipated backlog in VIM on Day 1.

6.15. Quality of master data provided by Business Units for system set up was poor (e.g. coders, approvers) which impacted workflow.

6.16. Lack of training undertaken by staff together with capability of Super Users to provide support severely impacted effective use of VIM ("VIM works well but is unforgiving if you don't comply")

6.17. General issues around payment of invoices made visible – issues often data related/compliance rather than VIM related

6.18. Confusion across supplier base as to new process for invoicing, adding to internal workload (multiple invoices, large number of calls)

6.19. Issues not escalated either within Business or AP - problems only came to light 6 weeks after go-live after programme team stood down

6.20. AP Team swamped and de-motivated, compounded by dissatisfaction at restructure and move to SSC with associated job reductions.

6.21. HCL could not bring back expert VIM training resource (assigned to another client); consultants they did bring in did not have same level of experience

Lessons Learnt (Implementation):

1. Experienced operational management needs to be in place on go-live to monitor successful implementation and manage issues arising
2. Shortfalls in design, testing and training will materialise into major problems at implementation
3. Data quality is key (especially master data) and needs to be thoroughly checked (HCL “loaded what they were given”)
4. External parties (partners, supplier etc) that are impacted should be involved earlier in implementation planning
5. Be cognisant of potential wider organisational changes affecting staff involved

7. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8. The Assistant Director of Corporate Governance confirms that there are no legal implications arising from this report.

9. Use of Appendices

None

10. Local Government (Access to Information) Act 1985

10.1. The following background papers were used in the preparation of this report:

- SLT Lessons Learnt Presentation June 2015

10.2. For access to the background papers or any further information please contact Neville Murton –Lead Finance Officer.

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Report for:	**Corporate Committee – 8 February 2016**
Item number:	**11**
Title:	**Internal Audit Progress Report 2015/16 – Quarter 3**
Report authorised by :	**Assistant Director of Corporate Governance**
Lead Officer:	Anne Woods, Head of Audit and Risk Management Tel: 020 8489 5973 Email: anne.woods@haringey.gov.uk
Ward(s) affected:	**N/A**
Report for Key/ Non Key Decision:	**Information**

1. Describe the issue under consideration

1.1 This report details the work undertaken by the Internal Audit and Counter Fraud Teams in the quarter ending 31 December 2015 and focuses on:

- Progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars); and
- Progress by management in implementing outstanding internal audit recommendations; with particular attention given to priority 1 recommendations; and
- Details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house counter Fraud Team.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the audit coverage and counter-fraud work completed.

4. Reasons for decision

4.1 The Corporate Committee is responsible for monitoring the completion of the annual internal audit plan and the implementation of agreed recommendations as part of its Terms of Reference.

4.2 In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the work undertaken by the Internal Audit Service in completing the 2015/16 annual audit plan, together with the responsive and pro-active fraud investigation work. Where further action is required or recommended, this is highlighted with appropriate recommendations for the Corporate Committee.

5. Alternative options considered

5.1 Not applicable.

6. Background information

6.1 The information in this report has been complied from information held within Audit & Risk Management and from records held by Mazars.

7. Contribution to strategic outcomes

7.1 The internal audit and counter-fraud teams make a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

8.1 Finance and Procurement

There are no direct financial implications arising from this report. The work completed by Mazars is part of the framework contract which was awarded to the London Borough of Croydon and extended to 31 March 2016, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget.

The financial benefits to the Council of the work completed during 2015/16 as part of the ongoing tenancy fraud project will be realised as properties are recovered and returned to the Council's portfolio. The Cabinet Office estimates that the costs of fraudulent tenancies and unauthorised sub-letting equate to £18k per annum per property, mainly relating to additional costs for temporary accommodation.

Preventing fraudulent Right to Buy applications ensures that properties are retained within the social housing stock and discounts of up to £102k per property are not allocated to those who are not entitled to receive them.

8.2 Legal

The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and advises that there are no direct legal implications arising out of the report.

8.3 Equality

This report deals with how risks to service delivery are managed across all areas of the Council, which have an impact on various parts of the community. The report also contains details of how fraud investigation work is undertaken and pro-active fraud projects are managed; preventing and detecting fraud will assist in improving services to residents.

9. Use of Appendices

Appendix A – Mazars Progress report – Internal audit
Appendix B – In-house Team – investigations into financial irregularities

10. Local Government (Access to Information) Act 1985

Not applicable

11. Performance Management Information

11.1 Although there are no national or Best Value Performance Indicators, local performance targets have been agreed for Audit and Risk Management. Table 1 below shows the targets for each key area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1

Ref.	Performance Indicator	3rd Quarter	Year to date	Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	100%	40%	95%
2	Priority 1 recommendations implemented at follow up	N/A	N/A*	95%
4	Tenancy fraud – properties recovered	10	27	40
5	Right to Buy – fraudulent applications prevented	25	75	80

* Follow up programme has commenced in Qtr 3.

13. Internal Audit work – Mazars

13.1 The activity of Mazars for the second quarter of 2015/16 to date is detailed at Appendix A**.** Mazars planned to deliver 150 days of the annual audit plan (788 days) during the quarter and actually delivered 154 days audit work during the quarter. Although the overall completion rate of the plan, to final report stage, is below expected at this stage of the year, this position is expected to improve during Quarter 4 as reports are finalised. No issues have been identified to prevent completion of the plan. Ongoing monthly contract monitoring reviews ensure that performance levels are kept under review.

13.2 Members of the Corporate Committee receive detailed summaries of all projects for which a final report has been issued on a monthly basis to allow for any concerns which members may have to be considered in a timely manner. Appendix A provides a list of all final reports which have been issued during the quarter.

13.3 Mazars have started the formal follow up audit programme in quarter 3 and the outcomes of this programme will be reported to the next meeting of the Corporate Committee.

14. In-house Counter-Fraud Team: Fraud investigation/Pro-active work

14.1 Internal employee investigations

In accordance with the Council’s Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees. Appendix B details the individual cases that were completed by the team in the third quarter 2015/16 relating to Council employees.

Within the third quarter, five new cases relating to permanent and temporary employees were referred to the Fraud Team. Three cases were completed during the quarter involving permanent Council employees. In all cases closed in Quarter 3, no evidence was found to substantiate the allegations made, although recommendations were made to improve controls in service areas to minimise risks in future. The Fraud

Team work closely with officers from HR and the service area involved to ensure that the investigation is completed as quickly as possible.

The Head of Audit and Risk Management maintains the central record of referrals made using the Council's Whistleblowing Policy. During the third quarter the Head of Audit provided a briefing and presentation to all senior managers, and publicity via the staff newsletter, on the Council's whistleblowing policy and how to use it.

Nine whistle blowing referrals were made during Quarter 3, eight of which were anonymous, making a total of 16 referrals to date. One referral related to Homes for Haringey and was provided to their HR service for further review. Five referrals related to non-financial issues and were referred to the relevant Assistant Directors and HR for their investigation. Two referrals related to financial issues and one investigation was completed by the Fraud Team, which found no evidence to support the allegation; one investigation is ongoing. One referral sent to the Head of Audit is awaiting further information from the individual as they provided no evidence to support their original referral but stated that they had evidence and would make this available.

14.2 Tenancy Fraud – council properties

In 2015/16, the numbers of referrals received, investigations completed and properties recovered to date by the Fraud Team are summarised below.

2015/16 – Referrals received		
Brought forward from 2014/15		**61**
2014/15 cases not previously included		**31**
Tenancy Management Officer	**65**	
Fraudcall (freephone and email)	**13**	
Pro-active exercises	**7**	
Public	**1**	
Other LA	**1**	
Other Haringey Service	**13**	
Total referrals received in 2015/16 to date		**100**
Total referrals received for investigation		**192**

2015/16 Outcomes		
Properties Recovered	**27**	
No Fraud identified	**81**	
Total cases concluded		**108**
Ongoing Investigations		**84***
***See Note 1 below**		

Note 1: Of the 84 ongoing investigations; **33** of these cases (39%) are with Legal Services and progressing towards tenancy recovery, giving a total potential recovery of **60 properties** for 2015/16. The property will be included in the 'recovered' data when the keys are returned and the property vacated.

The Fraud Team are liaising with Legal Services on individual cases to ensure these are progressed as quickly as possible. For the ongoing investigations where tenancy recovery is in progress; the status of the tenancy has been investigated and the case is either awaiting a Court Hearing, the Particulars of Claim are with Legal Services, an NTQ is awaiting expiry, a succession application has been refused and the tenant is awaiting an offer of smaller accommodation, or the rent account is showing an 'Unauthorised Account' on the Housing database.

Financial Values 2015/16 (to date)
The Audit Commission valued the recovery of a tenancy, which has previously been fraudulently occupied, at an annual value of £18,000, mainly relating to average Temporary Accommodation (TA) costs.

No new national indicators have been produced, therefore although this value is considered low compared to potential TA costs if the property has been identified as sub-let for several years, Audit and Risk Management continue to use this figure of £18k per property for reporting purposes.
In 2015/16 to date, **27** properties have been recovered through the actions and investigations of the Fraud Team; therefore **a total value of £486k** can be attributed to the recovery, or cessation, of fraudulent tenancies**.** If all remaining investigations are concluded within 2015/16, and 60 properties are recovered, the total financial value of the tenancy fraud work would **exceed £1 million** for the 2015/16 financial year.

The Fraud Team works with Homes for Haringey (HfH) to target and investigate housing and tenancy fraud, which forms part of HfH's responsibilities in the Management Agreement. The DCLG provided funding to local authorities to support tenancy fraud work and Haringey agreed with HfH that they would second a Tenancy Management Officer to the Fraud Team (with the DCLG grant paid to HfH to enable cover for the TMO to be obtained) to undertake reactive tenancy fraud investigations. This grant funding ended in May 2015, with no further grant funding available from the DCLG or other sources.

HfH have continued to fund the seconded officer directly after the end of the DCLG grant, and this agreement has been extended to 15 January 2016. The Fraud Team will continue to work with HfH to identify the most effective use of fraud prevention and detection resources across both organisations to enable a joined up approach to be taken, especially where cases of multiple fraud are identified e.g. tenancy fraud, right to buy fraud and benefit fraud. The longer term solution for tenancy fraud prevention and detection, including investigation resources, will be developed during 2015/16.

14.4 Right-to-buy (RTB) applications
To date, over 200 applications have been referred to the Fraud Team in 2015/16; and the team currently has approximately 305 ongoing applications under investigation. The team reviews every RTB application to ensure that any property where potential benefit or succession fraud is indicated can be investigated further.

In 2015/16 to date, **75** applications have been withdrawn or refused either following the applicants' interview with the Fraud Team, further investigations and/or the requirement to complete money laundering processes; 11 applications have been cleared for progression; and 305 applications are currently under investigation, with the Fraud Team awaiting responses from applicants in 173 cases.

Overall, the 75 cases represents **over £7.5m in RTB discounts** and means the properties are retained for social housing use.

14.5 National Fraud Initiative (NFI) – data matching exercise 2015

The National Fraud Initiative (NFI) is a statutory biennial data matching exercise which was managed by the Audit Commission (now the Cabinet Office). The data matches from the exercise are shared, via a secure website, with the Council to enable further investigations to take place. The initial data matches were made available to the Council in February 2015; the deadline for completing investigations is 31 December 2015, although some ongoing investigations will continue after this date.

The total potential data matches for each area are identified and, within this total, a number of 'recommended' matches, which are considered to have the highest risk of potential fraud linked to them, are highlighted. The Fraud Team focuses on completing their investigations into the 'recommended' matches and will select a further sample from the total matches for each area for investigation on a risk basis.

A summary of the NFI matches received and investigations completed, together with the number of fraud/errors identified is detailed in Table 2 below.

Table 2 – Summary of NFI potential data matches received

NFI area	Total Number of Matches identified	Total 'Recommended' Matches identified	Total number of investigations completed to date	Number of ongoing Investigations	Number of frauds/errors identified
Housing Benefits	8,522	2,799	865	0	6
Payroll	167	64	41	16	0
Pensions	204	62	87	0	0
Housing Tenants	494	141	227	11	1
Right to Buy	386	284	274	2	0
Insurance claimants	58	7	5	0	0
Blue badge permits	417	398	398	0	0
Personal Budgets	278	110	278	0	61
Private Residential Care Homes	26	13	26	0	9
Total	10,552	3,878	2,201	29	77

Summary details where fraud/errors were identified

A total of 77 cases of fraud or error, with a total value of £179.9k, were identified as a result of investigations into 2,101 data matches (3.6%). The Fraud Team undertook the investigations into data matches on a risk basis, and aligned the investigations with existing pro-active work programmes wherever possible to utilise resources effectively. Detailsof the outcomes where fraud and/or errors were identified are summarised below.

1. **Housing Benefits:**

Six frauds/errors were identified, with a total value of £136.4k. All overpayments are in the process of being recovered, some via ongoing entitlement. Two members of staff were included in the overpayments identified; they had not declared changes in circumstances e.g. changes in hours worked, increases in salary, resulting in overpayments of £3k and £6k. Disciplinary action was taken in accordance with the Council's Code of Conduct; benefit claims have been reassessed and repayment plans have been put in place. One benefit claimant did not have access to public funds resulting in an overpayment of £44k; the benefit claim was cancelled and recovery is being sought. All future NFI fraud investigations relating to Housing Benefits should be undertaken by the DWP's Single Fraud Investigation Service (SFIS).

2. Housing Tenants:

One error was identified relating to the incorrect recording of an individual's National Insurance number. The database was corrected, no financial error or fraud was identified.

3. Personal Budgets:

Sixty one errors were identified, all relating to different recording of address information, or incorrectly omitting the benefit details on the system which triggered the error report. No financial issues, frauds, or errors were identified by the data set matches.

4. Private Residential Care Homes:

Nine errors identified relating to the date of death for the client and subsequent overpayments to care home providers. The total of £43.5k was reclaimed from providers either by invoice, where the individual was the only client, or by recovery from subsequent payments to the care home where the Council has more than one service user resident in the care home.

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APPENDIX A

Internal Audit
Quarter 3 Internal Audit Report 2015/16
London Borough of Haringey

Mazars Public Sector Internal Audit Ltd.
December 2015

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Executive Summary

Introduction

This is our third quarter report to the Corporate Committee for the 2015/16 financial year including details of all reports which are now at final stage. The report provides information on those areas which have achieved full or substantial assurance and gives an indication of the direction of travel for key systems work which will provide Members with information on how risks are being managed over time. The format of this report is also designed to highlight the key risks facing individual departments and the Council which have been identified during the course of our internal audits. A more detailed summary of the limited assurance audit findings is included for information. The report draws together the summary information which is provided on a monthly basis to Members of the Corporate Committee. Members of the Committee will also be provided with full copies of our audit reports upon request.

All recommendations are agreed with Council officers, and any disputes are discussed prior to the final report being issued. All recommendations to address any control weaknesses highlighted within this report have been agreed. Officers' actions to address the recommendations, including the responsible officer and the deadline for completion, are fully detailed in the individual final audit reports.

The attached tables reflect the status of the systems at the time of the audit, and recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

As a reminder, our recommendations are prioritised according to the following categories:

Priority 1 - major issues for the attention of senior management
Priority 2 - other recommendations for local management action
Priority 3 - minor matters and/or best practice recommendations

Key Highlights/Summary of Quarter 3 2015/16:

2015/16 Internal Audits finalised in the quarter:

- Impulse Application Review
- Mosaic Application Review
- Major Construction Framework Advisory Report
- Court of Protection
- SAP Managed Services Contract
- S106 Community Infrastructure Levy
- Belmont Infants School

2015/16 Internal Audits drafts issued in the quarter:
- St Mary's Priory RC Infant & Junior School

2014/15 Internal Audit Final Reports issued
- DBS Checks
- Direct Payments
- Housing Transformation (Advisory)

2014/15 Internal Audit Draft Reports issued
- Sustainable Investment Fund

Audit Progress and Detailed Summaries

The following table sets out the audits finalised in Quarter 3 of 2015/16 financial year and the status of the systems at the time of the audit. It must be noted that the recommendations may already have been implemented by Council officers by the time the final report is issued and reported to the Corporate Committee.

Detailed summaries of all audits which do not receive 'Full' or 'Substantial' assurance ratings are also provided for Members' information.

Audit Title	Date of Audit	Date of Final Report	Assurance Level	Direction of Travel	Number of Recommendations (Priority)		
					1	2	3
2015/16							
Impulse Application Review	Aug 15	15/10/15	Substantial	N/A	2	5	0
Mosaic Application Review	Sept 15	29/10/15	Substantial	N/A	0	3	2
Major Construction Framework (Advisory)	July 15	26/10/15	N/A	N/A	4	6	0
Court of Protection	Sept 15	23/11/15	Substantial	⟺	0	2	1
S106/Community Infrastructure Levy	Sept 15	18/12/15	Substantial	N/A	1	2	0
SAP Managed Services	Sept 15	8/12/15	Substantial	N/A	0	1	2
2014/15							
Direct Payments	April 15	18/12/15	Limited	⟺	2	3	1
Housing Transformation (Advisory)	Nov 15	18/12/15	N/A	N/A	0	1	0
DBS checks	July 15	18/12/15	Substantial	N/A	0	4	0

As part of the 2015/16 Internal Audit Plan we have visited the following schools, completed a probity audit and during Quarter 3 issued a final report.

School	Date of Audit	Date of Final Report	Assurance Level	Number of Recommendations (Priority)		
				1	2	3
Belmont Infant School	July 15	25/11/15	Substantial	0	4	2

Audit area	Scope	Status/key findings	Assurance
ADULT SOCIAL SERVICES			
Direct Payments	Audit work was undertaken to cover the following areas: Policies, procedures and guidance; Payments to clients and service providers; Budget management and control; and Monitoring and reporting.	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk. The key findings are as follows: • There is Personal Budget Support Service (PBSS) Practice and Guidance dated July 2013, which was developed to agree standards by which the Personal Budget Support Team will carry out their daily functions, in supporting service users achieve the goals set in their Support Plans, via their Personal Budgets. • Policies and procedures covering Personal Budgets have been developed and made available to relevant officers. There are also Terms of Reference for the Personal Budget Support Team. • Service users are required to sign a standard Direct Payment Agreement (developed in April 2012), which includes confirmation that they have received and understood the current policy set out in "Help With Managing Your Personal Budget April 2012" (provided to the Direct Payment clients in a summary form, the full policy being available on request). • The agreement recommends that the service user asks for appropriate checks to be made through the Disclosure and Barring Service (DBS) on all their prospective employees. However, where a service user chooses not to have a DBS check, or wishes to start their employee before a DBS check is approved, there is no duty under current government guidance to insist on DBS checks being undertaken. As part of the assessment process, Social Workers, Care Managers and Personal Budget Support Team Officers can take a view, and have input into the recommendation, for a resident's appropriateness to manage a Direct Payment. • Although sections 5.3 and 5.4 of the "Help with Managing Your Personal Budget – Personal Budget Audit Policy, April 2012" stipulates that any surplus funds above a specified sum can be recovered by the Council, there is no defined statutory provisions and methods which should be followed by the Personal Budget	**Limited**

Audit area	Scope	Status/key findings	Assurance
		Support Team for recovering such excess balances. • Whilst it was found that policies and procedures have not been reviewed recently, we have been informed by management that these are expected to be reviewed by 31 March 2016, as part of the Council's aim to ensure these are consistent with the requirements of the Care Act 2014. We have been advised that there will be a new suite of internal procedures (including staff manual) to guide the implementation of the Care Act to ensure compliance with Part 1 of the Act when it becomes effective on 1 April 2015. Management have also informed us that Adult Services have secured the appointment of a Policy Officer, in light of the required amendments to all policies and procedures that will arise from the implementation of the new legislation. • Personal Budget procedures require at least an annual review to be completed for all service users. The annual review dates are set within Mosaic (Framework-i). When the review date becomes due, a notification is sent into the Personal Budget Support Team's Incoming Work folder. • The annual reviews had been done by Social Workers until July 2011, after which the responsibility was taken over by the Personal Budget Support Service. An external company were contracted by Adult Social Services in 2012 to complete reconciliations across Direct Payment service users (Adults only). We obtained evidence of the monthly reconciliations completed for between July and October 2012. From 2013, the reviews have been completed by the Personal Budget Support Officers (PBSOs). • Although a report is produced which identifies variances between the SSAQ/Indicative Budgets and the Purchase Orders, there is no documentary evidence that monitoring takes place and that the discrepancies are supported by valid reasons. Under the Care Act, the RAS requirements have been removed. Instead, we are informed that all funding decisions will now be made by the Adult Social Care Funding Panels. Further, the new Practice Manager, Assessment & Personalisation will carry out random case file audits, including DP clients. As such no formal recommendation	

Audit area	Scope	Status/key findings	Assurance
		has been raised. • The remit for the PBSOs completing the annual reviews include checking the service users' bank statements and ensuring that payments are appropriate and are consistent with the Support Plan. Where concerns are identified, the PBSOs report these to their line managers. However, the results of the reviews are not formally documented and as a result, there is a lack of transparency regarding successful completion of the checks and the outcome. • We sampled 10 service users and found that an annual review was not always completed when due. • Financial and Material Abuse training (Safeguarding) is mandatory for all staff including PBSO's. • For one of the service users sampled, unspent funds of £15,075 were identified in July 2012 by Care in Finance as part of their reconciliation of service users' Direct Payments. Our audit testing confirmed that a letter dated 30 July 2012 was sent by the Council to the service user informing them of the outcome of the review and the recovery by the Council of the unspent funds from their monthly Direct Payments. We were advised by management that the recovery of these funds was completed by adding a service element, 'SDS Direct Payments-Recovery of unspent balances' into Mosaic which effectively suspended payment via Mosaic and SAP until the balance in the Resident's account was down to an agreed level of eight weeks funding. The letter sent to the Resident was an explanation of how Haringey proposed to recover the unspent funds as the task was completed automatically. Where unspent balances are identified, payments to that client are temporarily suspended until the balance is recovered within a threshold of 8 weeks. • The Direct Payments budget is monitored monthly as part of the overall Care Purchasing Projections. Monitoring focuses on monthly variations. As a result of our audit work we have raised two Priority 1, three Priority 2 recommendations, and one Priority 3 recommendation	

Audit area	Scope	Status/key findings	Assurance
		which should assist in improving the control environment. The Priority 1 recommendations are as follows: An effective monitoring process, to be developed by management, should be implemented to ensure that an annual review is completed in a timely manner for all service users (or earlier, where there are specific concerns). This process can involve regular checks on Mosaic by a manager who is independent of the service. Furthermore, a formal reminder should be communicated to the Personal Budget Support Team and all relevant officers reinforcing the requirement for completion of an annual review. Management Response: Agreed. Improvements have been instigated around adherence to reviews. This has included the rationalistion of the Mosaic workflow to limit the review folder to a single area. The contracting of an independent reviewing team to meet the current volume of reviews being generated has improved the percentage of reviews completed within timescales. This has provided a clearer picture of requirements and an increased strategic thinking around review completion. Deadline: 31 March 2016 Management should develop a detailed brief for the benefit of the officers undertaking annual reviews of service users, explaining their responsibilities with regard to confirming the delivery of the service outcome and in particular, completion of the financial checks. The process should involve requesting bank statements and all supporting documentation and should be included within the Service's procedures. It is also recommended that a checklist is developed for completion by officers undertaking the review to confirm that all checks have been completed and to confirm the bank balance, which will assist with the identification of any unused funds that need to be recovered. Management Response:	

Audit area	Scope	Status/key findings	Assurance
		Agreed. However, this element would require significant increase in resources. The description portrays the review as a process in monitoring and accountability, whereas the purpose, as set out in the Personalisation Agenda and the Care Act, is for light touch reviewing to ensure that funds are sufficient to meet outcome requirements. Should we wish to review and essentially reconcile all 700 DP clients on an annual basis, in addition to pushing for the further increase in DP uptake, then dedicated practitioners/officers would need to be brought into the service to undertake this function. It would also need to be accepted that the review function would be slowed down and that Performance Indicators would then suffer without an increase in resources to manage this. Deadline: 31 March 2016	

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by us should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited

London

December 2015

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IN HOUSE AUDIT – IRREGULARITIES INVESTIGATED 01/04/15- 31/03/16

Service area	Irregularity Type	No. of cases investigated	No. of cases proven at 31/12/2015	No. of Officers subject to Disciplinary Investigation	Disciplinary Outcome	Value (£) (if known)
Children and Young People's Services	Alleged misuse of position	1	1	1	Employee Resigned	
Chief Operating Officer	Alleged Misuse of Blue Badge	1	1	1	Employee Resigned	
Children and Young People's Services	Alleged misuse of position	1	1	0	Employee Resigned (agency)	
Chief Operating Officer	Allegation of theft of kitchen stock	1	0	0	N/A	
Chief Operating Officer	Allegation of flexitime abuse	1	0	0	N/A	
Chief Operating Officer	Allegation of running business from desk	1	0	0	N/A	
Regen, Planning and Development	Allegation of bribery	1	0	0	N/A	
Children and Young People's Services	Alleged conflict of interest	1	0	0	N/A	
Children and Young People's Services	Alleged provision of false reference	1	0	0	N/A	
Adult Social Services	Alleged mismanagement of care home	1	0	0	N/A	
TOTAL		**10**	**3**	**2**		

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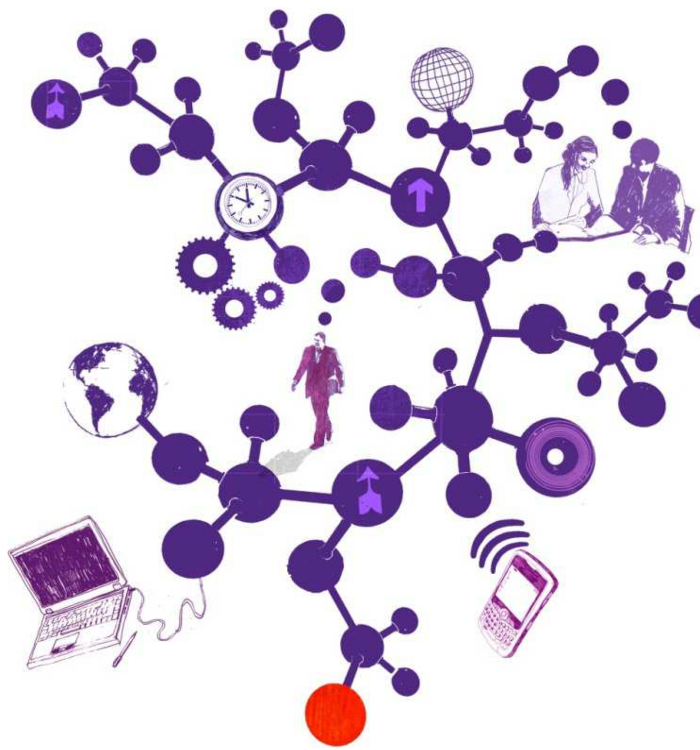
Grant Thornton

Corporate Committee Update

Year ended 31 March 2016

February 2016



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

This paper provides the Corporate Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Corporate Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (http://www.grant-thornton.co.uk/en/Services/Public-Sector/). Here you can download copies of our publications including:

- Making devolution work: A practical guide for local leaders
- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

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Progress at 21 January 2016

Work	Comments
Audit Certificates	We gave an unqualified opinion on the Council's financial Statements on 29 September 2014 in advance of the 30 September deadline. We were not able to certify the 2013/14 audit as complete due to two set of objections raised on the accounts by local authority electors. We have issued our report with recommendations to the Council and to the local objector in relation to court costs charged by the Council at the point of issuing a summons for non-payment of council tax. The objector has appealed to the High Court against our decision not to declare Council enforcement costs on those who haven't paid council tax to be illegal. The Court hearing is set for February 24th 2016. We are currently completing work of the on bailiff enforcement of parking/traffic debts and other parking matters. Once this objection is resolved the audit certificate will be issued an it will enable the 2013/14 and 2014/15 audits to be closed.
2014-15 Grant Claim certification	We have completed the certification work for the Pooling of Capital Receipts return, Teachers Pensions claim, the Decent Homes Backfunding claim and the . Council's Housing Benefit and Council Tax Benefit claim. Our Grant Certification report is a separate item on the agenda

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Grant Thornton and CIPFA workshops

Closure of accounts workshops

CIPFA FAN and Grant Thornton are presenting a 'Undertaking the 2015/16 Accounts Closedown' workshops. Attendees will gain an understanding of the key issues affecting the preparation of the 2015/16 Statement of Accounts and the ongoing and emerging audit issues that will need to be considered for this year's closedown.

The expected future changes to the Code of Practice and what actions need to be considered now to best prepare for those changes will also be discussed. There will be an opportunity to share and discuss the practical considerations in relation to the 2015/16 Statement of Accounts and share examples of good practice.

Grant Thornton are also running a Local Government faster close workshops in February. The firm has an excellent record of working with clients and assisting them with faster close.

Workshops will be interactive, giving you a unique opportunity to:

- hear from colleague practitioners who have already achieved early closure of public sector accounts, what challenges they faced and what has worked in practice;
- hear an audit perspective on earlier closure;
- explore the challenges and benefits of earlier closure;
- discuss what preparations can be made now and in the run up to 2018

Council officers have booked onto both events.

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Reforging local government

Summary findings of financial health checks and governance reviews

Grant Thornton market insight

The recent autumn statement represents the biggest change in local government finance in 35 years. The Chancellor announced that in 2019/20 councils will spend the same in cash terms as they do today and that "better financial management and further efficiency" will be required to achieve the projected 29% savings. Based on our latest review of financial resilience at English local authorities, this presents a serious challenge to many councils that have already become lean.

Our research suggests that:

- the majority of councils will continue to weather the financial storm, but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years, but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of their local partners to deliver the transformational changes that are needed and do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations, but also about effective management of change and risk
- councils need to improve the level of consultation with the public when prioritising services and make sure that their views help shape council development plans.

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Code of Audit Practice

National Audit Office

Under the Local Audit and Accountability Act 2014 the National Audit Office are responsible for setting the Code of Audit Practice which prescribes how local auditors undertake their functions for public bodies, including local authorities.

The NAO have published the Code of Audit Practice which applies for the audit of the 2015/16 financial year onwards. This is available at https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Final-Code-of-Audit-Practice.pdf

The Code is principles based and will continue to require auditors to issue:

- Opinion on the financial statements
- Opinion on other matters
- Opinion on whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the "VFM conclusion".)

The NAO plan to supplement the new Code with detailed auditor guidance in specific areas. The published audit guidance on the auditor's work on value for money arrangements was finalised in November 2015. The guidance includes the following.

- Definition of the nature of the opinion to be given – i.e. a "reasonable assurance" opinion as defined by ISAE 300 (revised)
- Definitions of what could constitute "proper arrangements" for securing economy, efficiency and effectiveness in the use of resources
- Guidance on the approach to be followed by auditors in relation to risk assessment, with auditors only required to carry out detailed work in areas where significant risks have been identified
- Evaluation criteria to be applied
- Reporting requirements.

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7 January 2016

Dear Tracie

Certification work for London Borough of Haringey Council for year ended 31 March 2015

We are required to certify certain claims and returns submitted by London Borough of Haringey Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

The Local Audit and Accountability Act 2014 gave the Secretary of State power to transfer Audit Commission responsibilities to other bodies. Public Sector Audit Appointments (PSAA) have taken on the transitional responsibilities for HB COUNT issued by the Audit Commission in February 2015

We have certified four claims and returns for the financial year 2014/15 relating to expenditure of £334.6 million. Further details of the claims certified are set out in Appendix A.

We are satisfied that the Council has appropriate arrangements to compile complete, accurate and timely claims/returns for audit certification. However, for Housing benefits the Council continues to process a large number of benefit claims incorrectly.

Testing of an initial sample of benefit cases identified several errors on the calculation of the claimants benefit including earned income, self employed income, income from pensions, non dependents income, child tax credits, working tax credits, childcare costs and claimant's rent. These errors subsequently impacted on the amount of benefit awarded to claimants. We also identified issues with the classification of overpayments. The number of errors remained fairly high and consistent with last year.

As a result of these findings the Council were required to undertake testing of 760 additional cases (19 sets of 40 plus) which focus on the errors identified. We were required to review and re-perform this testing. The additional testing identified similar errors. We have extrapolated the findings of all the cases tested over the populations and included these in our Qualification Letter which we agreed with the Council. The number of errors impact on the amount of additional testing that is required to certify the claim and also potentially impact on the subsidy due to the Council.

The indicative fee for 2014/15 for the Council is based on the final 2012/13 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification under the Audit Commission regime (such as the decent homes backfunding claim teachers pensions return and pooling housing capital receipts return) have been removed. The indicative scale fee set by the Audit Commission for the Council for 2014/15 is £45,900. This is set out in more detail in Appendix B.

The indicative fee set by the Audit Commission was based on the Council undertaking additional testing of 600 (15 sets of 40 plus) benefit cases as a result of errors identified from initial testing. The actual number of additional cases reviewed in 2014/15 was 760 (19 sets of 40 plus). Therefore we have agreed an additional fee of £5,064 for the extra work required in reviewing and reporting on the additional 160 cases (4 sets of 40 plu)s. The additional fee is subject to agreement from Public Sector Audit appointments.

Yours sincerely

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2014/15

Claim or return	Value	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim	£271,117,366	Yes	Amendment did not impact on the value of the claim	Yes	The Housing benefits claim was qualified as in previous years. The Council continue to process a large number of benefit claims incorrectly, but continue to support the audit process in an exemplary fashion. There were a high number of errors identified in the initial testing which has led to additional testing of 760 cases. The Council undertook this additional testing, but we were required to review and re-perform this work. The value of the additional work we undertook which was not required in 2012/13(the indicative fee is based on the 2012/13 year) is £5,064.
Decent Homes Backfunding claim	£25,480,000	No	Not Applicable	Not Applicable	None
Teachers' Pension	£15,990,086	No	Not Applicable	Not Applicable	None
Pooling of housing capital receipts	£21,993,680	No	Not Applicable	Not Applicable	None

Appendix B: Fees for 2014/15 certification work

Claim or return	2013/14 fee (£)	2014/15 indicative fee (£)	2014/15 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	44,247	45,900	50,964	5,064	Increase explained by additional work carried out in 2014/15 for the 19 sets of 40 plus compared to the indicative fee which was based on 14 sets of 40 plus.
Decent Homes Backfunding claim	4,000	N/A	4,000	0	None
Teachers' Pension	3,500	N/A	3,500	0	None
Pooling of housing capital receipts	3,500	N/A	3,500	0	None