NOTICE OF MEETING

CORPORATE COMMITTEE

Tuesday, 31st January, 2017, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Members: Councillors Barbara Blake (Chair), Eddie Griffith (Vice-Chair), Charles Adje, Patrick Berryman, Isidoros Diakides, Joseph Ejiofor, Stephen Mann, Sheila Peacock, Reg Rice, Viv Ross, Gail Engert and Gina Adamou

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 12).

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 - 8)

To consider and agree the minutes of the meeting held on 29 November 2016.

7. TREASURY MANAGEMENT STRATEGY STATEMENT (PAGES 9 - 48)

Report of the Chief Operating Officer to present the Treasury Management Strategy Statement and Prudential Indicators for 2017/18 – 2019/20 to this Committee for scrutiny before it is presented to Corporate Committee and then Full Council for final approval.

8. INTERNAL AUDIT UPDATE - QUARTER 3 (PAGES 49 - 66)

Report of the Assistant Director, Corporate Governance to detail the work undertaken by Internal Audit in the quarter ending 31 December 2016 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).

9. COUNTER-FRAUD UPDATE (PAGES 67 - 76)

Report of the Assistant Director, Corporate Governance to detail the work undertaken by the Counter Fraud Team in the quarter ending 31 December 2016 and focuses on details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house Fraud Team.

10. GRANTS REPORT ON THE HOUSING BENEFIT SUBSIDY CLAIM (PAGES 77 - 92)

Report of the External Auditor.

11. PROGRESS UPDATE REPORT (PAGES 93 - 100)

Report of the External Auditor.

12. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

13. DATE AND TIME OF NEXT MEETING

21 March 2017, 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

Monday, 23 January 2017

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MINUTES OF THE MEETING OF THE CORPORATE COMMITTEE HELD ON TUESDAY, 29TH NOVEMBER, 2016

PRESENT:

Councillors: Barbara Blake (Chair), Eddie Griffith (Vice-Chair), Patrick Berryman, Isidoros Diakides, Joseph Ejiofor, Stephen Mann, Sheila Peacock, Viv Ross and Gina Adamou

99. FILMING AT MEETINGS

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

100. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for absence were received from Councillor Adje and from Councillor Engert.

101. URGENT BUSINESS

There were no items of urgent business.

102. DECLARATIONS OF INTEREST

There were no declarations of interest.

103. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

There were no such items.

104. MINUTES

RESOLVED

That the minutes of the meeting held on 15th September 2016 be approved as a correct record and signed by the Chair.

105. TREASURY MANAGEMENT UPDATE - Q2 (MID YEAR REPORT)

The Committee considered the mid year report on Treasury Management, presented by Oladapo Shonola, Head of Finance – Treasury and Pensions. It was noted that it was a requirement of the CIPFA Treasury Management Code for this report to also be considered by Full Council. The key messages from the report were that:

- As at 31 March 2016 the Council had £312.2m of borrowing and £29.15m of investments.
- As at 30 September 2016 the Council held £273.6m of loans (a decrease of £9.7m on 31 March 2016), that it was estimated that the Council would incur a net cost of £31m if all PWLB loans were rescheduled (full details of which were provided at appendix 4 to the report).
- The cut in the UK Bank Rate from 0.5% to 0.25% in August 2016 had affected investment returns, the current forecast investment income for the year is estimated at £104k.
- There had been no breaches of the Prudential Indicators for 2016/17, as set by Full Council as part of the Treasury Management Strategy Statement.

In response to a question from the Committee regarding the outlook for the remainder of 2016/17, it was reported that this would largely depend on developments in the UK economy relating to Brexit and that there was currently uncertainty relating to what this impact would be, although there were indications of a general downward trend in economic growth.

In response to some questions for clarification by the Committee it was noted that the table on page 14 of the report had been inadvertently duplicated from paragraph 14.4 and was not relevant to the section on borrowing activity, and that the PREM column on the table at appendix 4 referred to the premium for the respective loans.

RESOLVED

That members note the Treasury Management activity undertaken during the six months to 30th September 2016 and the performance achieved.

106. INTERNAL AUDIT UPDATE - QUARTER 2

The Committee considered the Internal Audit Progress Report 2016/17 – Quarter 2, presented by Anne Woods, Head of Audit and Risk Management. The report set out progress on internal audit coverage relative to the approved internal audit plan, including the number of reports issued and finalised by Mazars, the Council's external audit provider, and provided a summary of the audit reports receiving an assurance rating of less than substantial that had been issued during the quarter, as well as an update on follow up work and progress on outstanding actions.

In relation to the audit reports issued during the quarter, it was noted that three (Civica Enforcement Application Review, Procurement of Contracts below OJEU Threshold and Tuition Service) had received a limited assurance and one (Stamford Hill Primary School) had received nil assurance. In relation to Stamford Hill School, it was reported that the Head of Audit and Risk Management was working with the AD, Schools and Learning and had held discussions with the Chair of Governors and Head teacher at the school, that an action plan was in place and that a follow-up audit was programmed for 12 December 2016. The Head of Audit and Risk Management would report back on the findings of the follow-up at the next meeting of the Committee.

In response to a question from the Committee, it was reported that the only previous nil assurance ratings for internal audits in Haringey had also related to schools, but that this was the first such rating for a couple of years. The Committee expressed concern regarding the findings of the audit relating to procurement of contracts below OJEU threshold, and asked for further information on this. Anna D'Alessandro, Interim Deputy Section 151 Officer, agreed that the findings were unacceptable and had identified that there were concerns around getting the basics of procurement right. It was noted that the procurement service had recently moved from Finance to Commercial and Operations and that the Chief Operating Officer was working closely with the AD Commercial and Operations to address the issues identified. It was further noted that a number of senior staff within Finance, where responsibility for the procurement function had previously resided, had left the organisation. The Chair noted that this was a matter of concern and that she would be monitoring progress on the actions arising from this audit on a regular basis with the Head of Audit and Risk Management. A follow up report on this would be provided to the next meeting of the Committee.

The Committee asked about contracts above the OJEU limit; the Head of Audit and Risk Management advised that there was a rolling programme of contract audits above the OJEU threshold each year. Unlike contracts below the OJEU limit which were governed by more generic processes, those above the threshold tended to have more bespoke arrangements and audits of these were therefore on an individual contract basis, on the basis of risk analysis, rather than across the piece. The Interim Deputy Section 151 Officer advised that the Council as an organisation was overall very compliant in respect of contracts, and that the issues identified only affected a very small amount of the Council's spend.

RESOLVED

That the Committee note the audit coverage and follow up work completed.

107. COUNTER-FRAUD UPDATE

The Committee considered the report on the work undertaken by the Counter Fraud Team in the quarter ending 30 September 2016, which covered details of proactive and reactive investigative work undertaken by the in-house Counter Fraud Team. It was noted that two whistleblowing referrals had been received during quarter 2, and that in relation to tenancy fraud 21 properties had been recovered to date in 2016/17, with 85 investigations ongoing, of which court proceedings were underway for 39. Also during this quarter, one Temporary Accommodation property had been recovered, three fraudulent housing applications had been prevented and 22 Right to Buy applications had been withdrawn or refused. It was noted that the Council had been supporting other local authorities with their own work in this area, and had recently presented at the National Anti-Fraud Network Annual Summit.

In response to a question from the Committee regarding how the targets for tenancy fraud and Right to Buy fraudulent applications were set, it was reported that the targets were based on a former estimate of the Audit Commission that 4-6% of total tenancies could be fraudulent, and the application of that estimate to the resources available. On average, the Council recovered 40 to 60 properties per year, but it was noted that where prosecutions were undertaken jointly with other local authorities it could take several years to complete the legal process and recover the keys to a property. The Council previously received funding from the DCLG for additional investigators in this area, and during that period the targets had increased, however the targets had lowered again since this funding had ceased.

The Committee asked how the Council obtained information relating to potential tenancy fraud, and it was reported that there were several different data sources, including data matching with credit reference agencies, looking at people who paid their rent from outside the borough, intelligence from within the Council and working with external agencies, the National Fraud Initiative and data matching with Housing Benefits records. A recent project had been for investigators to attend Gas Safety Check appointments in temporary accommodation units, and work was taking place to train tenancy management officers to look for tell-tale indications of fraud when undertaking routine checks. The Committee asked whether there was a way of deterring people from making fraudulent applications in the first place; it was reported that the Council tried to interview applicants at an early stage as possible and to ask questions that might make them think about the implications of proceeding with an application they knew to be fraudulent, word of mouth reports that all applications were investigated thoroughly was also a potential way to deter people and it was noted that some applications were withdrawn after being submitted.

The Committee asked about the Right to Buy discount that was available, and also the nature of the fraud identified. It was reported the discount was stepped, with discounts available up to a maximum of £103k after 5 years, to be reduced to 3 years shortly. It was noted that fraudulent behaviour was not only on the part of applicants, but there were also examples of mortgage brokers, financial advisors and solicitors being involved in fraudulent applications. The Council was keen to identify potential fraud cases not only to prevent homes being sold at a discount illegally, but to protect longstanding Council tenants who may be at risk of losing their homes.

In response to a question from the Committee it was confirmed that a telephone number, email address and PO Box for contacting the Council regarding suspected fraud was advertised on the Council's website, and that details were also being printed on the back of Argos receipts in Wood Green, Harringay and Tottenham Hale as a targeted project. The Committee suggested that consideration be given to printing information about fraud prevention on the Housing Benefits form on an annual basis.

RESOLVED

That the Committee note the counter-fraud work completed in the quarter.

108. EXTERNAL AUDITOR APPOINTMENT

The Committee considered the report on the External Audit Appointment Process, presented by Anne Woods, Head of Audit and Risk Management. The report set out the alternative options of the Council making its own arrangements for the appointment of its external auditor, via an Auditor Panel, or using the appointed 'sector led body' Public Sector Audit Appointments Ltd (PSAA) and the implications of each approach. It was noted that the Corporate Committee was being asked to make a recommendation on the approach to adopt, as the Committee with responsibility for oversight of external audit arrangements, but that the final decision was legally reserved for Full Council. The report recommended the use of PSAA for the appointment of the Council's external auditor.

The Committee asked about the arrangements for audits of local health trusts being made available to the Council's Overview and Scrutiny Committee, in response to which Andrew Barnes, BDO, advised that the Overview and Scrutiny Committee, along with the Health and Wellbeing Board, would have a role in commenting on the health trust's qualitative account and that as part of that process the Committee should request additional external audit reports.

The Committee asked about the accountability of PSAA; the Head of Audit and Risk Management advised that the PSAA was wholly owned by the Local Government Association and had a remit restricted to managing the appointment of external audit services to the local government sector. The PSAA had already stated that it intended to avoid the larger firms that tended to dominate the market and would look at mid-sized audit firms as part of its work, with arrangements in place such that contracts were not awarded solely on price terms. It was noted that this would be a significant public sector procurement exercise and would therefore exceed the OJEU threshold – all elements of the process would therefore be available for public scrutiny. In addition, PSAA would be required to file accounts as a limited company.

RESOLVED

That the Committee recommend to Full Council that the external auditor for the Council and for the pension fund should be appointed by Public Sector Audit Appointments Ltd (PSAA), a subsidiary of the Improvement and Development Agency (IDeA) which is wholly owned by the Local Government Association.

109. ANNUAL AUDIT LETTER

The Committee considered the Annual Audit Letter, presented by Andrew Barnes, BDO. Mr Barnes advised that the letter was a summarised version of the overall findings of the audit of the Council's Statement of Account 2015/16, which had been presented in detail at the previous meeting of the Committee. The only new information since the previous report was identified as the section on Whole of Government Accounts at page 8 of the letter, which related to the Council's Data Collection Tool (DCT) submission; it was noted that some minor amendments had been made to the DCT as part of this process.

The Committee expressed the view that this report felt more positive than the report considered at the previous meeting, in response to which Mr Barnes advised that the previous report had been a far more technical document, which had raised issues around financial reporting issues. It was noted that all of these technical issues had now been resolved and the auditors were therefore in a position to state their opinion that the Statement of Accounts was a true and fair reflection of the Council's position. It was noted that the issuing of the final audit certificate was dependent on some outstanding legal issues which also affected the ability of the Council's former external auditors to issue a certificate for the previous year's audit, but it was not felt that this had a significant impact on the ability of the auditor to provide their opinion.

In response to a question from the Committee regarding the pension fund and why an increase in contributions was necessary when liabilities were reported to be falling, it was advised that this was dependent on the actuarial forecast. While there was a reported reduction in liabilities based on a technical assessment, there was also a funding gap which needed to be bridged in the long-term, based on a number of factors such as changing patterns of life expectancies since funds had been established.

The Committee asked about 'materiality' and it was reported that this was the methodology used by auditors to establish a tolerance for error within which assurance regarding the accuracy of the Statement of Accounts could be provided. In response to a question from the Committee regarding whether the external auditors considered expenditure against budget. Mr Barnes advised that this did not form part of the audit work in relation to the Statement of Accounts, but was considered by the auditors as part of its annual Use of Resources work.

RESOLVED

That the content of the report be noted.

110. PROGRESS UPDATE 2015-16

The Committee considered the external audit progress report, presented by Andrew Barnes, BDO, which set out the current position in the audit cycle and provided assurance regarding compliance with statutory requirements and deadlines. It was noted that reports on the review of the Housing Benefit Subsidy claim and Grants report would be reported to the next meeting of the Committee. The report also noted the outstanding issues affecting the ability to issue an audit certificate.

RESOLVED

That the content of the report be noted.

111. ANY OTHER BUSINESS OF AN URGENT NATURE

The Chair noted that this was the last meeting of the Committee of Anna D'Alessandro, Interim Deputy Section 151 Officer. The Committee expressed its thanks for all of her work in support of the Committee and wished her the very best of luck in the future.

In response to a question from the Committee regarding the report on the proactive counter fraud work relating to contracts as referred to on page 7 of the minutes of the previous meeting, it was reported that it may be possible for this to be considered at the meeting of the Committee in January 2017, but this would depend on when the work was concluded. The Head of Audit and Risk Management confirmed that the Committee would be advised when this report would be brought to the Committee.

Action: Head of Audit and Risk Management

112. DATE AND TIME OF NEXT MEETING

31st January 2017, 7pm.

The meeting closed at 8.10pm.

CHAIR: Councillor Barbara Blake

Signed by Chair ………………………………..

Date …………………………………

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Agenda Item 7

Report for:	Corporate Committee 31st January 2017
Item number:	**7**
Title:	Treasury Management Strategy Statement 2017/18 – 2019/20
Report authorised by:	Tracie Evans, Chief Operating Officer (CFO)
Lead Officer:	Oladapo Shonola, Head of Finance - Treasury & pensions oladapo.shonola@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 2017/18 – 2019/20 to this Committee for scrutiny before it is presented to Corporate Committee and then Full Council for final approval.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the proposed Treasury Management Strategy Statement for 2017/18 to 2019/20 is scrutinised and comments made prior to its presentation to Council for 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 None

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 through Overview and Scrutiny Committee and in consultation with the Cabinet Member for Resources & Culture.

6.2. Following scrutiny the report will be considered by Corporate Committee and submitted to Full Council for Approval. Any comments by Overview and Scrutiny will be reported to Corporate Committee. 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 2017/18 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 £12.3 million of loans due to mature during 2016/17 and projected debt financed capital expenditure of £11.2 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 around 0.25% making funding via short term debt attractive. Longer rates are still low but expected to increase gradually over the next three years suggesting that locking in longer term debt may have a carry cost.

6.6. 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.

6.7. 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.

6.8. 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.

6.9. The counterparty list (appendix 5) includes sixteen 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.

6.10. 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.

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 2017/18 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 2017/18 – 2019/20.

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 Appendix 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 Appendix 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 2017-18 to 2019-20

1 Introduction

1.1 In February 2012 the Council 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 Council 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 Council Investments* in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

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

1.4 The Council 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 Council's treasury management strategy.

1.5 In accordance with the CLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a change in how treasury management services are delivered, a large unexpected change in interest rates, or in the Council's capital programme or in the level of its investment balance.

2 External Context

2.1 **Economic background:** The major external influence on the Council's treasury management strategy for 2017/18 will be the UK's progress in negotiating a smooth exit from the European Union. Financial markets, wrong-footed by the referendum outcome, have since been weighed down by uncertainty over whether leaving the Union also means leaving the single market. Negotiations are expected to start once the UK formally triggers exit in early 2017 and last for up to two years. Uncertainty over future economic prospects will therefore remain throughout 2017/18.

2.2 The fall and continuing weakness in sterling and the near doubling in the price of oil in 2016 have combined to drive inflation expectations higher. The Bank of England is forecasting that Consumer Price Inflation will breach its 2% target in 2017, the first time since late 2013, but the Bank has indicated it will tolerate temporary inflation overshoots over the course of 2017 when setting interest rates so as to avoid derailing the economy.

2.3 Initial post-referendum economic data showed that the feared collapse in business and consumer confidence had not immediately led to significantly lower GDP growth. However, the prospect of leaving the single market has dented business confidence and resulted in delay of new business investment and, unless counteracted by higher public spending or retail sales, lack of new business investment will likely weaken economic growth in 2017/18.

2.4 Looking overseas, with the US economy and its labour market showing steady improvement, the market has priced in a high probability of the Federal Reserve increasing interest rates in December 2016. The Eurozone meanwhile has continued to struggle with very low inflation and lack of momentum in growth, and the European Central Bank has left the door open for further quantitative easing.

2.5 The impact of political risk on financial markets remains significant over the next year. With challenges such as immigration, the rise of populist, anti-establishment parties and negative interest rates resulting in savers being paid nothing for their frugal efforts or even penalised for them, the outcomes of Italy's referendum on its constitution (December 2016), the French presidential and general elections (April – June 2017) and the German federal elections (August – October 2017) have the potential for upsetting the status quo.

2.6 **Credit outlook:** Markets have expressed concern over the financial viability of a number of European banks recently. Sluggish economies and continuing fines for pre-crisis behaviour have weighed on bank profits, and any future slowdown will exacerbate concerns in this regard.

2.7 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 European Union, Switzerland and USA, while Australia and Canada are progressing with their own plans. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Council; returns from cash deposits however continue to fall.

2.8 **Interest rate forecast:** The Council's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.25% during 2017/18**.** The Bank of England has, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further falls in the Bank Rate look less likely. Negative Bank Rate is currently perceived by some policymakers to be counterproductive but, although a low probability, cannot be entirely ruled out in the medium term, particularly if the UK enters recession as a result of concerns over leaving the European Union.

2.9 Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50. Long-term economic fundamentals remain weak, and the quantitative easing (QE) stimulus provided by central banks globally has only delayed the fallout from the build-up of public and private sector debt. The Bank of England has defended QE as a monetary policy tool, and further QE in support of the UK economy in 2017/18 remains a possibility, to keep long-term interest rates low.

2.10 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.20%, and that new long-term loans will be borrowed at an average rate of 2.84%.

3 Local Context

3.1 On 30th November 2016, the Council held £319m of borrowing and £38m of investments. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The estimates for each pool, based on the current proposed Revenue Budget and Capital Programmes, are:

Table 1a: Treasury Position – General Fund

	31/03/2016 Actual £'000	31/03/2017 Approved £'000	31/03/2017 Projected £'000	31/03/2018 Estimate £'000	31/03/2019 Estimate £'000	31/03/2020 Estimate £'000
General Fund CFR	276,919	297,121	308,590	301,745	310,974	319,693
Less: Share of existing external debt and other long term liabilities	147,684	139,960	119,146	114,326	106,168	98,411
Internal Borrowing	129,235	131,318	189,444	187,419	194,154	199,808
Cumulative Net Borrowing Requirement	0	25,843	0	0	10,651	21,474

Table 1b: Treasury Position – HRA

	31/11/16 Actual £'000	31/03/17 Approved £'000	31/03/17 Projected £'000	31/03/18 Estimate £'000	31/03/19 Estimate £'000	31/03/20 Estimate £'000
HRA CFR	271,096	292,666	271,096	271,096	271,096	278,910
Less: Share of Existing External Debt & Other Long Term Liabilities	197,981	191,454	199,903	199,903	199,903	207,717
Internal Borrowing	73,115	69,780	71,193	71,193	71,193	71,193
Cumulative Net Borrowing Requirement	0	31,432	0	0	0	0

3.3 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2017/18 and the remainder of the forecast period.

3.4 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 relatively low (probably below 2%) for the next few years. It is anticipated that a significant level of internal / short term borrowing will continue, with the only reduction expected reflecting the planned movement in reserves.

3.5 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 2016-17 nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.

3.6 It is a requirement for the HRA CFR to remain within 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

	31/03/16 Actual £'000	31/03/17 Approved £'000	31/03/17 Estimate £'000	31/03/18 Estimate £'000	31/03/19 Estimate £'000	31/03/20 Estimate £'000
HRA CFR	271,096	292,666	271,096	271,096	271,096	278,910
HRA Debt cap	327,538	327,538	327,538	327,538	327,538	327,538
Headroom	56,442	34,872	56,442	56,442	56,442	48,628

3.7 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

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
General	44,571	114,026	103,838	64,690	56,688	64,466
HRA	96,436	51,996	64,323	43,561	42,944	43,220
Total	141,007	166,022	168,161	108,251	99,632	107,686

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

Table 4: Capital Financing

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital receipts	9,275	25,798	8,565	19,248	8,394	4,867
Other grants & contributions	119,915	38,663	22,805	22,390	12,738	13,216
Government Grants	0	16,612	24,543	8,108	12,903	14,852
Reserves / Revenue contributions	7,452	28,260	65,748	47,323	42,350	40,439
Total Financing	136,642	109,333	121,660	97,069	76,384	73,374
Borrowing	4,365	56,689	46,501	11,182	23,248	34,313
Total	141,007	166,022	168,161	108,251	99,632	107,686

3.9. 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 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 2017-18 the ratio is impacted by expectations of significant additional borrowing for the General Fund.

Table 5: Incremental Impact of Capital Investment Decisions

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Increase in Band D Council Tax	10.03	32.04	5.42	13.75	29.91	36.84
Increase in Average Weekly Housing Rents	0.42	1.10	0.81	0.20	0.31	1.16

3.10. 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.

3.11. 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 would derive greater benefit from the repayment of high coupon debt.

Table 6: Ratio of Financing Costs to Net Revenue Stream

	2015/16 Actual	2016/17 Approved	2016/17 Projected Out-turn	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
	%	%	%	%	%	%
General Fund	1.85	1.93	1.89	2.18	2.12	2.36
HRA	9.02	8.88	9.06	9.87	9.39	10.35

4. Borrowing Strategy

4.1. The Council currently holds £273.6m of loans, a decrease of £11.6m on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Council expects to borrow up to £37.3m in 2017/18. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £536.1m.

Objectives

4.2. The Council'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 Council'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 Council'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 Council is able to reduce net borrowing costs 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 delaying borrowing into future years when long-term borrowing rates are forecast to rise modestly.

4.5. 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 Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2017-18 with a view to keeping future interest costs low, even if this costs more in the short-term.

4.6. Alternatively, the Council may arrange forward starting loans during 2017-18, 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.

4.7. The Council will adopt a flexible approach to this borrowing in consultation with its treasury management advisers. 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 European Investment Bank and Commercial Banks
- UK public/private sector pension funds (except Haringey Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other entities created to enable local Council bond issues
- Leasing

4.8. The Council may borrow short-term loans (normally for up to one month) to cover unexpected cash flow shortages. The Council 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.

4.9. 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 Council 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 Council holds £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council 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 2017/18, and although the Council understands that lenders are unlikely to exercise their options in the current low interest rate environment, there remains an element of refinancing risk. The Council 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 Council 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. However, they do, at present, 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 Council 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 2017-18

5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £0 and £50m. It is anticipated that net 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 Council 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 Council'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 of receiving unsuitably low investment income.

Negative Interest Rates

5.3. If the UK enters into a recession in 2017/18, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Strategy

5.4. The majority of the Authorities surplus cash is currently invested in short-term unsecured bank deposits and money market funds. These investments are exposed to bank bail in risk. To reduce potential 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.

5.5. Following a review and as cash balances are not expected to increase in 2017/18, counterparty investment limits have been maintained at 2016/17 – counterparty limits for individual banks has been set at £5m and exposure to local Council is maintained at maximum deposit of £15m per Council. These changes also reflect the anticipation that cash balances will continue to remain at or below historic levels as part of the policy to minimise new long term borrowing.

Specified and Non-specified Investments

5.5. 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 Appendix 4, which also explains the meaning of these terms. The list of proposed counterparties is shown in Appendix 5. In keeping with the strategy of maintaining high quality counterparties, at least 50% of all investments will be specified investments.

Specified Investments

5.6. The CLG Guidance defines specified investments as those:

- denominated in pound sterling,
- due to be repaid within 12 months of arrangement,

- not defined as capital expenditure by legislation, and
- invested with one of:
  - the UK Government,
  - a UK local Council, parish council or community council, or
  - a body or investment scheme of "high credit quality".

5.7. The Council defines "high credit quality" organisations and securities as those having a credit rating of [A-] or higher that are domiciled in the UK or a foreign country with a sovereign rating of [AA+] or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of [A-] or higher.

Non-specified Investments

5.8. Any investment not meeting the definition of a specified investment is classed as non-specified. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality. Limits on non-specified investments are shown in table 7 below.

5.9. Although cash balances will be low at certain times, there may be opportunities to invest core balances 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 £5m to be invested for over 12 months but less than 24 months. The Chief Operating 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.

Table 7: Limits - Specified and Non-Specified Investments

Specified Investments				
Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**	**Maximum period of investment**

Term Deposits	UK	Debt Management Account Deposit Facility (DMADF), Debt Management Office (DMO)	No limit	364 days
Gilts	UK	Debt Management Office (DMO)	No limit	364 days
Treasury Bills	UK	Debt Management Office (DMO)	No limit	364 days
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£15m per local authority	364 days
Term Deposits/ Call Accounts/ Certificates of Deposit/Covered Bonds	UK or AA+	Counterparties rated at least A- Long Term (or equivalent)	£5m per bank or banking group	364 days
Constant Net Asset Value Money Market Funds (MMFs)	UK/Ireland/ Luxembourg domiciled	AAA-rated Money Market Funds	£10m per MMF*; Group limit £50m	Instant Access
Non Specified Investments				
Instrument	**Country/ Domicile**	**Counterparty**	**Maximum Counterparty Limits £m**	**Maximum period of investment**
Gilts	UK	Debt Management Office (DMO)	£10m	36 Months
Term Deposits/ Call Accounts	UK	Other UK Local Authorities	£15m per local authority	36 Months
Term Deposits/ Call Accounts/ Certificates of Deposit/Covered Bonds	UK or AA+	Counterparties rated at least A- Long Term (or equivalent)	£5m per bank or banking group	364 days
Variable NAV Enhanced Cash Funds	UK/Ireland/ Luxembourg domiciled	AAA - rated Funds	£5m per ECF*; Group limit £10m	Minimum Weekly Redemption

Risk Assessment and Credit Ratings

5.10. 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.

5.11. Credit ratings are obtained and monitored by the Council'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.

5.12. 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.

Other Information on the Security of Investments

5.13. The Council 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.

5.14. 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 Council 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 Council’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.

Investment Limits

5.15. The Council’s estimated revenue reserves available to cover investment losses are forecast to be £18m on 31st March 2017. In order that no more than 85% of estimated available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15m. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

6. Treasury Management Indicators

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

Security

6.2. The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Table 8: Credit Score Target

	Target
Portfolio average credit	3 - 6

Interest Rate Exposures

6.3. This indicator is set to control the Authority's exposure to interest rate risk, which includes £125m of LOBO loans. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

Table 9: Interest Rate Exposure

	2017/18	2018/19	2019/20
Upper limit on fixed interest rate exposure	100%	100%	100%
Upper limit on variable interest rate exposure	60%	60%	60%

6.4. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Authorised Limits for External Debt

6.5. 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 10: Authorised Limit

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	283,233	468,174	271,614	481,523	494,848	515,623
Other Long-term Liabilities	49,329	60,057	45,498	54,540	49,132	43,534
Total	332,562	528,231	317,112	536,063	543,980	559,157

Operational Boundary for External Debt

6.6. 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 £272m and projected three year debt financed capital expenditure of £69m and provides scope for variations in capital expenditure, funding sources and reserves.

Table11: Operational Boundary

	2015/16 Actual £'000	2016/17 Approved £'000	2016/17 Projected Out-turn £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Borrowing	283,233	418,174	271,614	431,523	444,848	465,623
Other Long-term Liabilities	49,329	54,598	45,498	49,582	44,665	39,576
Total	332,562	472,772	317,112	481,105	489,514	505,199

6.7. The Chief Financial Officer has delegated Council, 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.

Maturity Profile

6.8. 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.

6.9. The maturity range has been applied to LOBO loans (see 4.9 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 12: Maturity Profile

	Lower Limit	Upper Limit	31-Mar-16	31-Mar-16
	%	%	%	LOBO adjusted %
under 12 months	0%	60%	4%	48%
12 months & within 24 months	0%	40%	4%	4%
24 months & within 5 years	0%	40%	9%	9%
5 years & within 10 years	0%	40%	13%	13%
10 years & within 20 years	0%	40%	4%	4%
20 years & within 30 years	0%	40%	4%	0%
30 years & within 40 years	0%	50%	26%	12%
40 years & within 50 years	0%	50%	36%	10%
50 years & above	0%	40%	0%	0%

Liquidity Management

6.10. The Council uses purpose-built cash flow forecasting software 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. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

Principal Sums Invested for Periods Longer than 364 days

6.11. The purpose of this indicator is to control the Council'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:

Table 13: Limit on Sums Invested Beyond 364 Days

	2017/18	2018/19	2019/20
Limit on principal invested beyond year end	£10m	£10m	£10m

7. MRP Statement

7.1. The Council's MRP policy has been reviewed and revised to better reflect the rules set out in the prudential code and government guidance around prudent provision for repayment of borrowed capital. The revised policy ensures that provision for capital repayment is made over a period that is commensurate with the period in which the asset purchased provides benefits.

7.2. The revised MRP policy better reflects how original funding intentions and ensures that MRP is recovered over the useful economic life of assets. Overall, the new policy will have a positive impact on Council's finances.

General Fund MRP policy: borrowing before 2007/08

7.3. The Council will calculate MRP on historic debt based on the Capital Financing Requirement (CFR) as at 1 April 2007.

7.4. The Council will calculate the MRP charge based on 2% of that CFR, fixed at the same cash value so that the whole debt is repaid after 50 years in total.

7.5. The historic MRP policy for borrowing incurred before 2007/08 led to MRP charges that exceeded what prudence required during the period from 1 April 2007 to 31 March 2016. This resulted in a cumulative charge at 31 March 2016 that was in excess of what is considered prudent and appropriate under the current policy. To reflect the historic over-provision the Council will undertake an annual review to determine whether to make a realignment of MRP charged to the General Fund, using the policy set out above, to recognise the excess sum charged to that point.

7.6. The following conditions will apply to the annual review:

- Total MRP after applying realignment will not be less than zero in any financial year.
- The cumulative total of the MRP realignment will never exceed the amount of historical over-provision calculated to 31 March 2016.

General Fund MRP policy: prudential borrowing from 2007/08

7.5. For borrowing incurred on schemes described by the Government as Prudential Borrowing or Unsupported Borrowing, MRP will be calculated over the estimated remaining useful life applicable to the expenditure (usually the useful life of the asset it is financing) using the Annuity repayment method in accordance with Option 3 of the guidance.

7.6. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset. Estimated life periods will be determined by the Section 151 Officer under delegated powers.

7.7. In accordance with the provisions in the guidance, MRP will be first charged in the financial year following the one in which the entire asset to which the charge relates, becomes fully operational.

Concession Agreements

7.8. MRP in relation to concession agreements (e.g. PFI contracts) and finance leases will be calculated on an asset life method using an annuity repayment profile, consistent with the method for all prudential borrowing since 2007/08. Estimated life periods will be determined under delegated powers.

7.9. The Section 151 Officer may approve that such debt repayment provision may be made from capital receipts or from revenue provision.

Finance Leases

7.10. For assets acquired by finance leases, including leases brought on Balance Sheet under the International Financial Reporting Standards (IFRS) based Accounting Code of Practice, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Statutory capitalisations

7.11. For expenditure which does not create a fixed asset, but is statutorily capitalised and subject to estimated life periods that are referred to in the guidance, these estimated periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

7.12. Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, at the discretion of the Section 151 Officer.'

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 Council is obliged by CIPFA or CLG to include in its Treasury Management Strategy.

Policy on Use of Financial Derivatives

9.2. The Council has previously made use of financial derivatives embedded into loans to reduce costs e.g. LOBO loans. The Council will not 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.

Policy on Apportioning Interest to the HRA

9.3. On 1st April 2012, the Council 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 Council's average interest rate on investments.

Investment Training

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. Training sessions are arranged for members to keep their knowledge up to date.

9.6. The needs of the Council'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 Council 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 Council's treasury management staff.

Investment of Money Borrowed in Advance of Need

9.8. The Council 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 Council 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 Council's overall management of its treasury risks.

9.9. The total amount borrowed in 2017-18 will not exceed the authorised borrowing limit of £536m. The maximum period between borrowing and expenditure is expected to be one year, although the Council is not required to link particular loans with particular items of expenditure.

Financial Implications

9.10. The budget investment income in 2017-18 is £30k, based on an average investment portfolio of £14m at an interest rate of 0.20%. The budget for debt interest paid in 2017-18 is £14.5m, based on an average debt portfolio of £310m (including short term debt) at an average interest rate of 4.95%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will also be different. Interest paid and earned is apportioned between the General Fund and HRA. The average interest rate on existing debt will decline in 2017-18 from 5.19% to 5.10% with overall interest costs falling by approximately £1.0m. New debt is projected to cost an average 2.84%.

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.

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 Officer (COO), 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

Appendix 1

Details of Treasury Position

A: General Fund Pool

	31-Mar-17 Projected £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000
Existing External Borrowing commitments:				
PWLB	37,212	33,152	29,635	25,847
Market loans	42,281	42,281	42,281	42,281
Total External Borrowing	79,493	75,433	71,916	68,128
Long Term Liabilities	45,499	41,318	37,221	32,980
Total Gross External Debt	124,992	116,751	109,137	101,108
CFR	308,590	301,745	310,974	319,693
Internal Borrowing	183,598	184,994	191,186	197,111
Cumulative Borrowing requirement	0	0	10,651	21,473

B: HRA Pool

	31-Mar-17 Projected £'000	31-Mar-18 Estimate £'000	31-Mar-19 Estimate £'000	31-Mar-20 Estimate £'000
Existing External Borrowing commitments:				
PWLB	117,184	117,184	117,184	124,998
Market loans	82,719	82,719	82,719	82,719
Total External Borrowing	199,903	199,903	199,903	207,717
CFR	271,096	271,096	271,096	278,910
Internal Borrowing	71,193	71,193	71,193	71,193
Cumulative Borrowing requirement	0	0	0	0

C: Security Measure

		2017-18	2018-19	2019-20
Above target	AAA to AA+	Score 0 - 2	Score 0 - 2	Score 0 – 2
Target score	AA to A	Score 3 – 6	Score 3 – 6	Score 3 – 6
Below target	Below A	Score 6+	Score 6+	Score 6+

Appendix 2

Summary of Prudential Indicators

No.	**Prudential Indicator**	**2017/18**	**2018/19**	**2019/20**
CAPITAL INDICATORS				
1	Capital Expenditure	£'000	£'000	£'000
	General Fund	64,690	56,688	64,466
	HRA	43,561	42,944	43,220
	TOTAL	108,251	99,632	107,686

No.	**Prudential Indicator**	**2017/18**	**2018/19**	**2019/20**
2	Ratio of financing costs to net revenue stream	%	%	%
	General Fund	2.18	2.12	2.36
	HRA	9.87	9.39	10.35

No.	**Prudential Indicator**	**2017/18**	**2018/19**	**2019/20**
3	Capital Financing Requirement	£'000	£'000	£'000
	General Fund	301,745	310,974	319,693
	HRA	271,096	271,096	278,910
	TOTAL	572,841	582,070	598,603

No.	**Prudential Indicator**	**2017/18**	**2018/19**	**2019/20**
4	Incremental impact of capital investment decisions	£	£	£
	Band D Council Tax	13.75	29.91	36.84
	Weekly Housing rents	0.20	0.31	1.16

No.	Prudential Indicator	2017/18	2018/19	2019/20
TREASURY MANAGEMENT LIMITS				
5	Borrowing Limits	£'000	£'000	£'000
	Authorised Limit	536,063	543,980	559,157
	Operational Boundary	481,105	489,514	505,199

No.	Prudential Indicator	2017/18	2018/19	2019/20
6	HRA Debt Cap	£'000	£'000	£'000
	Headroom	56,442	56,442	48,628

No.	Prudential Indicator	2017/18	2018/19	2019/20
7	Upper Limit - Fixed Rate Exposure	100%	100%	100%
	Upper Limit - Variable Rate Exposure	60%	60%	60%

No.	Prudential Indicator	2017/18		2018/19		2019/20	
8	Maturity Structure of Borrowing						
	U: Upper, L: Lower	L	U	L	U	L	U
	Under 12 Months	0%	60%	0%	60%	0%	60%
	12 Months & Within 2 Years	0%	40%	0%	40%	0%	40%
	2 Years & Within 5 Years	0%	40%	0%	40%	0%	40%
	5 Years & Within 10 Years	0%	40%	0%	40%	0%	40%
	10 Years & Within 20 Years	0%	40%	0%	40%	0%	40%
	20 Years & Within 30 Years	0%	40%	0%	40%	0%	40%
	30 Years & Within 40 Years	0%	50%	0%	50%	0%	50%
	40 Years & Within 50 Years	0%	50%	0%	50%	0%	50%
	50 Years & above	0%	40%	0%	40%	0%	40%

No.	Prudential Indicator	2017/18	2018/19	2019/20
9	Sums invested for more than 364 days	10	10	10

No.	Prudential Indicator	2017/18	2018/19	2019/20
10	Adoption of CIPFA Treasury Management Code of Practice	✓	✓	✓

Appendix 3

Arlingclose Economic & Interest Rate Forecast November 2016

- The medium term outlook for the UK economy is dominated by the negotiations to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

- The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.

- However, following significant global fiscal and monetary stimulus, the short term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.

- Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.

- Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.

- The currency-led rise in CPI inflation (currently 1.0% year/year) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.

- The depreciation in sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.

- Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import-led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.

- Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely..

Forecast:

- Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.

- The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

- Gilt yields have risen sharply, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Average
Official Bank Rate														
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	**0.12**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**	**0.25**
Downside risk	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.40**
3-month LIBID rate														
Upside risk	0.05	0.05	0.10	0.10	0.10	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	**0.18**
Arlingclose Central Case	**0.25**	**0.25**	**0.25**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.30**	**0.29**
Downside risk	0.20	0.25	0.25	0.25	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.34**
1-yr LIBID rate														
Upside risk	0.10	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.23**
Arlingclose Central Case	**0.60**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.60**	**0.70**	**0.85**	**0.90**	**0.90**	**0.90**	**0.65**
Downside risk	0.10	0.15	0.15	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	**0.24**
5-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**0.50**	**0.40**	**0.35**	**0.35**	**0.35**	**0.40**	**0.40**	**0.40**	**0.45**	**0.50**	**0.55**	**0.60**	**0.65**	**0.45**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
10-yr gilt yield														
Upside risk	0.30	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.15**	**0.95**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.10**	**1.15**	**0.96**
Downside risk	0.30	0.45	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	**0.47**
20-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.70**	**1.50**	**1.40**	**1.40**	**1.40**	**1.40**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.65**	**1.70**	**1.75**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**
50-yr gilt yield														
Upside risk	0.25	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	**0.39**
Arlingclose Central Case	**1.60**	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**	**1.35**	**1.40**	**1.45**	**1.50**	**1.55**	**1.60**	**1.41**
Downside risk	0.40	0.55	0.55	0.55	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	**0.57**

Appendix 4

Counterparty Policy

The investment instruments identified for use in 2016-17 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 2017-18 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. Nine countries retain AAA ratings from all three rating agencies – Australia, Canada, Denmark, Germany, Netherlands, Norway, 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 (Appendix 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 £10m 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 £10m	364 days 24 months	Specified non-specified
Supra-national Banks & European Agency	AA-	£10m £5m	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-	£5m per bond, £20m aggregate £5m per bond, £10m aggregate £5m per bond, £10m aggregate	364 days 364 days 24 months	Specified Non-specified non-Specified
UK Local Council Deposits	n/a	£15m per counterparty £5m per counterparty	364 days 24 months	specified non-specified
UK & AAA country Banks - term deposits, CDs and call accounts	AA- AA- A-	£10m per bank or banking group £5m per bank or banking group £5m 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	£10m per MMF. Aggregate £50m. £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.

Appendix 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 Appendix 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 Appendix 4.

A UK bank has been suspended as a counterparty when compared with last year's list. The number of supranational banks has doubled from four to eight. All are AAA rated by the three rating agencies. These banks raise funds via CDs. The Arlingclose support maximum maturities of up to 25 years for AAA rated supranational banks, although a 15 year maximum maturity is recommended for the Council of Europe Development Bank.

There has been a net addition of six overseas banks 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 Appendix 4, a limit of £5m per bank and £10m per Non-UK country will be applied.

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 Appendix 4. The limit for any single MMF is £10m and each ECF is £5m – Group limit £50m.

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

Instrument	Country / Domicile	Counterparty	Arlingclose Suggested (Maximum) Maturity
UK Banks and Building Societies- Term Deposits, Call Accounts & CDs			
	United Kingdom	BANK OF SCOTLAND PLC	13 months
	United Kingdom	LLOYDS BANK PLC	13 months
	United Kingdom	BARCLAYS BANK PLC	100 days
	United Kingdom	COVENTRY BUILDING SOCIETY	6 months
	United Kingdom	HSBC BANK PLC	13 months
	United Kingdom	NATIONWIDE BUILDING SOCIETY	6 months
	United Kingdom	ABBEY NATIONAL TREASURY SERV	6 months
	United Kingdom	SANTANDER UK PLC	6 months
UK: Other Institutions			
	United Kingdom	DEBT MANAGEMENT OFFICE	50 years
	United Kingdom	LCR FINANCE PLC	15 years
	United Kingdom	WELLCOME TRUST FINANCE PLC	20 years
Non-UK Banks - Term Deposits, Call Accounts and CDs			
	Australia	AUST AND NZ BANKING GROUP	6 months
	Australia	NATIONAL AUSTRALIA BANK LTD	6 months
	Canada	EXPORT DEVELOPMENT CANADA	25 years
	Denmark	KOMMUNEKREDIT	25 years
	Finland	MUNICIPALITY FINANCE PLC	15 years
	Germany	FMS WERTMANAGEMENT	25 years
	Germany	KREDITANSTALT FUER WIEFERAUF	25 years
	Germany	LANDESKRED BADEN-WUERTT FOER	25 years
	Germany	LANDWIRTSCHAFTLICHE RENTENBA	25 years
	Germany	LAND SACHSEN-ANHALT	15 years
	Netherlands	BANK NEDERLANDSE GEMEENTEN	5 years
	Netherlands	NEDERLANDSE WATERSCHAPSBANK	5 years
	Norway	KOMMUNALBANKEN AS	5 years
	Singapore	TEMASEK FINANCIAL I LTD	10 years
	Sweden	SVENSK EXPORTKREDIT AB	5 years
	Sweden	SVENSKA HANDELSBANKEN-A SHS	13 months
Supranational Banks			
		COUNCIL OF EUROPE DEVELOPMNT	15 years
		EUROPEAN BANK FOR RECONSTRUC	25 years
		EUROPEAN COAL & STEEL COMMUN	25 years
		EUROPEAN INVESTMENT BANK	25 years
		INTER-AMERICAN DEV BANK	25 years
		INTERNATIONAL BANK FOR RECON	25 years
		INTERNATIONAL FINANCE CORP	25 years
		NORDIC INVESTMENT BANK	25 years

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Report for: **Corporate Committee – 31 January 2017**

Item number: **8**

Title: **Internal Audit Progress Report 2016/17 – 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 Internal Audit in the quarter ending 31 December 2016 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).

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the audit coverage and follow up 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 annual audit plan. 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 work makes 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 2018, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget. The maintenance of a strong internal audit function and a proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

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

8.3 Equality
There are no direct equality implications for the Council's existing policies, priorities and strategies. However, ensuring that the Council has effective governance arrangements in place and takes appropriate action to improve these where required will assist the Council to use its available resources more effectively. 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.

9. Use of Appendices
Appendix A – Mazars Progress report – Internal audit

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%	51%	95%
2	Priority 1 recommendations implemented at follow up (2014/15)	100% (16/16)	100% (16/16)	95%

12. Internal Audit work – Mazars

12.1 The activity of Mazars for the third quarter of 2016/17 is detailed at Appendix A. Mazars planned to deliver 190 days of the annual audit plan (772 days) during the quarter and delivered 190 days audit work during the quarter. Ongoing monthly contract monitoring reviews ensure that performance levels are kept under review and no issues have been identified to prevent the annual target from being achieved.

12.2 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.

12.3 **Significant issues arising in Quarter 3**.
School audits. During the quarter, eight school audits were completed and final reports issued. Six out of the eight schools received 'limited' assurance ratings (the remaining two received 'substantial' ratings). This is a deterioration in overall performance compared to the previous year. It should be noted that the 2016/17 school audit programme included all those schools who had either received a 'limited' assurance rating, or who had not implemented recommendations at the time of the follow up audit, as well as a number of schools who were due for audit under the cyclical timetable. Internal audit are liaising with the Assistant Director for Schools and Learning to identify how improvements can be made.
Procurement audits. A second procurement audit (Use of Waivers) has been issued with a 'limited' assurance rating. Internal audit have discussed the findings of the procurement audit work completed in 2016/17 and the identified risks. Further follow up work will be undertaken to ensure recommendations are implemented by the end of the financial year which will assist in improving the control environment.

12.4 **Follow up work 2014/15.** Appendix A also includes details of follow up work completed in Quarter 3 for the 2014/15 audit work. Out of a total of 110 recommendations, 95 had been implemented at the time of follow up, nine were no longer applicable and one was in progress, with 5 not implemented, giving a compliance rate of 95%. No high priority recommendations remain outstanding. The outstanding recommendations will be kept under review and further reports provided to the Corporate Committee to ensure all recommendations which remain relevant are fully implemented.

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Internal Audit
Quarter 3 Internal Audit Report
2016/17
London Borough of Haringey

Mazars Public Sector Internal Audit Ltd.
December 2016

Contents

Executive Summary

Introduction

This is our third quarter report to the Corporate Committee for the 2016/17 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 2016/17:

2015/16 Internal Audits finalised in the quarter:

- Brokerage
- Planning Services
- Pension Administration
- St Ignatius Primary School
- Earlham Primary School

2015/16 Internal Audits drafts issued in the quarter:

- Scheme of Delegation

2016/17 Internal audits finalised in the quarter

- SEN Transport
- OHMS Application Review
- Use of Waivers
- Teacher Pensions
- Northumberland Park School
- Fortismere School
- Seven Sisters Primary School
- St Aiden's Primary School
- St Michael's Primary School
- Vale Special School

2016/17 Drafts issued in the quarter

- Transitions – Children's to Adult Services
- Highway Repairs Contract
- Highgate Wood Secondary School
- St John Vianney RC Primary School
- Lordship Lane Primary School
- Weston Park Primary School
- Blanche Neville Special School
- Riverside Special School
- Pembury Nursery School

INTERNAL AUDIT - QUARTERLY AUDIT REPORT 2016/17 **APPENDIX A**

Audit Progress and Detailed Summaries

The following table sets out the audits finalised in Quarter 3 of 2016/17 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							
Brokerage	March 16	Nov 16	Substantial	N/A	0	3	2
Planning Services	April 16	Oct 16	Substantial	N/A	0	2	0
Pension Administration	May 16	Dec 16	Substantial	N/A	0	3	0
2016/17							
SEN Transport	June 16	Nov 16	Substantial	⇔	0	1	0
OHMS Application review	Oct 16	Nov 16	Substantial	N/A	1	2	3
Use of Waivers	July 16	Nov 16	Limited	N/A	0	6	3

As part of the 2015/16 and 2016/17 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
2015/16						
St Ignatius Primary School	May 16	Oct 16	Limited	0	9	6
Earlham Primary School	March 16	Oct 16	Limited	2	2	1
2016/17						
Northumberland Park Community School	May 16	Oct 16	Substantial	0	6	3
Fortismere Secondary School	July 16	Oct 16	Substantial	0	1	3
Seven Sisters Primary School	June 16	Oct 16	Limited	2	12	2
St Aiden's Primary School	June 16	Nov 16	Limited	0	7	3
St Michael's Primary School	May 16	Dec 16	Limited	2	6	2
Vale Special School	Sept 16	Dec 16	Limited	1	8	1

Audit area	Scope	Status/key findings	Assurance
Procurement			
Use of Waivers	Audit work was undertaken to cover the following areas: • Policies and Procedures • Bona Fide Waivers • Waivers raised in all appropriate cases • Contracts waived at full cost • Waivers appropriately authorised and reported • Corrective Action taken on identified non compliance	Weaknesses in the system of internal controls are such as to put the client's objectives at risk and /or the level of non-compliance puts the client's objectives at risk. The key findings are as follows: • The Contract Procedure Rules of the Borough were obtained during the audit and it was noted that they provide rules that should be followed when waivers are utilised under section 10 of the rules. However, upon review of the contract procedure rules, we noted that the date of next review and the name of the person approving the rules were not recorded on the document. • It was noted that waivers were approved by the respective departments and therefore forward to the procurement to be recorded on the central register. It was confirmed that the Contract Procedure Rules do not make a provision for procurement to review the waiver requests before approval by the respective Operational Directors. • Approved waivers are recorded on the central register managed by the Compliance Officer in Corporate Procurement. A sample of 20 waivers recorded on the register was obtained and one waiver approval under the construction category could not be provided for review when requested. • Of the 19 waiver approvals provided, it was revealed that two of the waivers were not approved by the Director in line with the Contract Procedure Rules for waivers. Instead the approvals were by the Head of Supply Management within the IT category. • The Contract Procedure Rules requires that waivers sought for the second time in relation to the same individual contract must be approved by the Cabinet. However, we noted that two contracts had been waived more than once according to the waiver register, with no evidence in place to indicate that the waivers were approved by the Cabinet. • We also noted one instance whereby the waiver approval was sought retrospectively, after the contract was already awarded due various reasons cited as urgent need, existing relationship with the	**Limited**

Audit area	Scope	Status/key findings	Assurance
		suppliers, end user preferences, etc. • Of the 19 waivers reviewed, we observed nine approved waivers which were not challenged although the reasons provided for the waivers were either not in line with the Contract Procedure Rules or were not adequately substantiated. • The Contract Procedure rules require that waivers are raised and approved at full cost. Upon review of the sample selected, it was confirmed that all the waivers approved were at full cost of the contracts. • There are four procurement categories in place which are suppliers and services, information technology, construction and care. Upon review of the central waiver registers, we noted that the entire register had no IT category related waivers. A further follow up with the IT category management revealed that a separate waiver register was kept for IT related waivers. • Review of the central waiver register, revealed that certain key information was not recorded As a result of our audit work we have raised six Priority 2 and three Priority 3 recommendations, which should assist in improving the control environment. The Priority 2 recommendations are as follows: The Contract Procedures Rules should include a requirement that contract waiver requests should be subjected to procurement review and support/approval before approval by the Director/Cabinet. The introduction of the new sourcing solution and contract management solution will have waivers and awards work-flowed to include procurement. Procurement code of practice will be updated to include this requirement (code of practice already referenced in CSO's) Deadline Already Implemented. The contract procedure rules should make provisions for disciplinary actions to be taken on non-compliance with the rules. The compliance strategy references consequential options for non compliance of procurement code of practice and CSO's etc.	

Audit area	Scope	Status/key findings	Assurance
		We can reference the compliance strategy in the code of practice, this embeds into CSO's. Deadline January 2017 Departments should record supporting evidence of why a waiver is required on the waiver form. This should be retained for inspection and further reference. This will be monitored by the Compliance Manager going forward and non compliance will be managed in line with the compliance strategy. Deadline Already Implemented. All IT Contract Waivers should be forwarded to Procurement for recording and retention. The retention and documenting of waivers should be part of the procurement support via the SSC. Head of Procurement will liaise with SSC to put this process in place, aligning to the implementation of new technologies. Deadline January 2017. Contract waivers request should be approved by the respective Director or the Cabinet respectively, in line with the CPR. Disciplinary actions should be considered on deviations from the CPR. Compliance Manager will investigate and take appropriate action. Deadline Already Implemented Contract waivers request should be approved by the respective Director or the Cabinet respectively, in line with the CPR. Disciplinary actions should be considered on deviations from the CPR. Compliance Manager will investigate and take appropriate action. Deadline Already Implemented	

Follow Up Table – 2014/15 Audit Work

AUDIT AREA	Assurance Level	Recommendations												Priority 1 Recs. Outstanding
		Category				Implemented								
		1	2	3	Total	1	2	3	Total	N/A	Not Imp.	In Progress	Not due	
Key Financial Systems														
Strategic Financial Management and Budgetary Control	Substantial	0	1	0	**1**	0	1	0	**1**	0	**0**	**0**	**0**	0
Cash Receipting	Substantial	0	1	1	**2**	0	1	1	**2**	0	**0**	**0**	**0**	0
Accounting & General Ledger	Substantial	0	2	0	**2**	0	2	0	**2**	0	**0**	**0**	**0**	0
Accounts Payable	Limited	3	5	0	**8**	3	4	0	**7**	1	**0**	**0**	**0**	0
Accounts Receivable	Substantial	0	2	2	**4**	0	2	2	**4**	0	**0**	**0**	**0**	0
Housing Benefits	Substantial	0	2	1	**3**	0	2	1	**3**	0	**0**	**0**	**0**	0
Payroll	Substantial	0	2	2	**4**	0	2	2	**4**	0	**0**	**0**	**0**	0
Contract & Procurement														
IT Services – Disposal of IT Assets	Substantial	0	4	0	**4**	0	4	0	**4**	0	**0**	**0**	**0**	0
BSF ICT Managed Services Contract	Substantial	0	0	1	**1**	0	0	0	**0**	1	**0**	**0**	**0**	0
Off Site Storage Contract	Limited	1	6	0	**7**	1	5	0	**6**	0	**1**	**0**	**0**	0
E U Public Contract Compliance	Substantial	0	1	1	**2**	0	0	1	**1**	1	**0**	**0**	**0**	0
Procurement Strategy	Substantial	1	5	0	**6**	1	2	0	**2**	3	**0**	**0**	**0**	0
Scheme of Delegation and Contract Standing orders		0	4	0	**4**	0	3	0	**3**	0	**0**	**1**	**0**	0
Corporate IT Audits														
Website Management	Substantial	0	0	3	**3**	0	0	3	**3**	0	**0**	**0**	**0**	0
ICT Strategy & Governance	Substantial	0	1	1	**2**	0	1	1	**2**	0	**0**	**0**	**0**	0
Comino Document Management System	Substantial	1	2	2	**5**	1	2	2	**5**	0	**0**	**0**	**0**	0
ePay Application	Substantial	0	1	3	**4**	0	1	3	**4**	0	**0**	**0**	**0**	0
M3PP Environmental Enforcement Application	Substantial	0	6	7	**13**	0	6	7	**13**	0	**0**	**0**	**0**	0
Environmental Services & Community Safety														
Highways Income	Limited	2	0	1	**3**	2	0	1	**3**	0	**0**	**0**	**0**	0

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AUDIT AREA	Assurance Level	Recommendations												Priority 1 Recs. Outstanding
		Category				Implemented								
		1	2	3	Total	1	2	3	Total	N/A	Not Imp.	In Progress	Not due	
Environmental Services - Enforcement	Substantial	0	1	1	**2**	0	0	1	**1**	0	**1**	**0**	**0**	0
Children's Services														
Children in Care	Limited	2	2	1	**5**	2	2	1	**5**	0	**0**	**0**	**0**	0
Adult Services														
Safeguarding Adults Board	Substantial	0	3	3	**6**	0	3	3	**6**	0	**0**	**0**	**0**	0
Private Sector Leasing		0	0	3	**3**	0	0	0	**0**	3	**0**	**0**	**0**	0
Corporate Risks														
Data Quality & Performance Indicators	Substantial	**0**	2	0	**2**	0	2	0	**0**	**0**	**0**	**0**	**0**	**0**
Ad hoc Work														
Pendarren Outdoor Education Centre	Limited	6	4	1	**11**	6	4	1	**0**	**0**	**0**	**0**	**0**	0
Free School Meals		0	3	0	**3**	0	3	0	**3**	**0**	**0**	**0**	**0**	0
Total		**16**	**60**	**34**	**110**	**16**	**49**	**30**	**95**	**9**	**2**	**1**	**0**	**0**

Implemented – officers has indicated through self-certification the progress of recommendations. We have verified a sample of responses.
N/A – the recommendation is no longer applicable due to changes in the system, or alternative action has been taken to address the risk.
Not implemented – the recommendation has not been addressed, alternative action has not been taken.
In Progress – officers have started implementation of recommendations

Detailed Progress Report – Outstanding Recommendations 2014/15

Ref	Recommendation	Priority	Original Implementation Deadline	Progress/Status
Off Site Storage Contract				
1	Team Managers across the Council should be formally reminded of the requirement to maintain a register of documents, detailing documents in storage, accountability, date sent to storage, destruction dates, and documents retrieved. The register should be kept up-to-date.	2	September 2014	**Not Implemented** Each individual Business Unit has a responsibility to adhere to keeping their own records and managing their finances. The FM Soft Services Manager will look to produce a set of reminders communications to be published on the intranet and will investigate how Stor-A-File can produce reports for the individual Budget Holders. There are currently 100+ BU on the system.
Scheme of Delegation and Contract Standing Orders				
2	The Financial Schemes of Delegation displayed on the intranet should be reviewed and updated to reflect the current management structure of the Council. Corporate Finance should seek to obtain notice from SAP HR of changes to staff with financial powers, such that the Directorate Schemes of Delegation can be amended.	2	August 2015	**I n progress** This forms part of the finance department restructure There is a stream of work being undertaken across the Shared Service Centre around starters & leavers that will address updating the scheme of delegation to be completed by January 2017.
Environmental Services – Enforcement				
3	The Enforcement Strategy should be reviewed and updated to reflect the priorities of the current Corporate Plan and to provide a transparent link to Corporate objectives. he updated Strategy should be made available on the Council's intranet. Management should also ensure that the document is reviewed and updated in a timely manner, when due.	2	November 2015	**Not Implemented** In light of proposals to join up current noise/ASB and street enforcement functions. The Enforcement Strategy will now be incorporated into an overall Enforcement Policy. The Enforcement Policy will reflect current Corporate Plan priorities linked to Corporate objectives. It is anticipated that a draft Enforcement Policy will be ready for consultation by December 2016 and published by April 2017.

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 2016

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

Registered office: Tower Bridge House, St Katharine's Way, London, E1W 1DD, United Kingdom. Registered in England and Wales No 4585162.

Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

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Agenda Item 9

Report for:	**Corporate Committee – 31 January 2017**
Item number:	**9**
Title:	**Counter Fraud Update Report 2016/17 – 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 Counter Fraud Team in the quarter ending 31 December 2016 and focuses on details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house Fraud Team.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the counter-fraud work completed in the quarter to 31 December 2016.

4. Reasons for decision

4.1 The Corporate Committee is responsible for Monitoring the effectiveness of Council policies on Anti-Fraud and Corruption. In order to facilitate this, progress reports are provided on a quarterly basis for review and consideration by the Corporate Committee on the responsive and pro-active fraud investigation work.

5. Alternative options considered

5.1 Not applicable.

6. Background information

6.1 The information in this report has been compiled from information held within Audit & Risk Management.

7. Contribution to strategic outcomes

7.1 The counter-fraud team makes a significant contribution through its pro-active work in 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 the Fraud Team is funded from within the Audit and Risk Management revenue budget. The maintenance of a strong proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal

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

8.3 Equality

There are no direct equality implications for the Council's existing policies, priorities and strategies. The report 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 – 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 counter-fraud area monitored and gives a breakdown between the quarterly and cumulative performance.

Table 1

Ref.	Performance Indicator	3rd Quarter	Year to date	Target
1	Tenancy fraud – properties recovered	13	34	40
2	Right to Buy – fraudulent applications prevented	12	70	80

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

12.1 Internal employee investigations

In accordance with the Council's Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees. Appendix A details the individual cases that were completed by the team in the third quarter 2016/17 relating to Council employees.

Quarter 3 investigations. Within the third quarter, three new cases relating to permanent and temporary employees were referred to the Fraud Team. Four cases were completed during the quarter: evidence was found to substantiate the allegations made in all cases and disciplinary hearings were arranged; all four employees resigned prior to the disciplinary hearings. In addition one member of staff, who had previously been dismissed, appealed the decision. The appeal was rejected by Members in Quarter 3.

Five cases remained under investigation at the end of the quarter and the outcomes will be reported to a future meeting of the Corporate Committee. 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.

Details of the investigations relating to allegations against employees completed by the Fraud Team in 2016/17 are contained at Appendix A.

Whistleblowing referrals. The Head of Audit and Risk Management maintains the central record of referrals made using the Council's Whistleblowing Policy. Seven whistle blowing referrals were made during Quarter 3, four of which were anonymous.

Three referrals related to non-financial issues and the relevant Assistant Director agreed to investigate the allegations raised. One referral was investigated by Audit and Risk Management; no evidence was found to substantiate the allegation and the outcome of the investigation was reported to HR and the service. One investigation was completed by HR and no evidence was found to support the allegations. Two referrals remain under investigation at the end of the quarter.

In total, fourteen referrals have been reported using the Whistleblowing policy in 2016/17 to date.

12.2 Tenancy Fraud – council properties

In 2016/17, the numbers of referrals received, investigations completed and properties recovered to date by the Fraud Team are summarised below.

<u>2016/17 – Referrals received</u>

Brought forward from 2015/16	88
Referrals received in 2016/17	117
Total referrals received for investigation	**205**

<u>2016/17 Outcomes</u>

Properties Recovered	**34**	
No Fraud identified	89	
Total cases concluded		123
Ongoing Investigations		**82***

***See Note 1 below**

Note 1: Of the 82 ongoing investigations; 28 of these cases (34%) are where tenancy fraud has been identified and court proceedings were in progress as at

Haringey LONDON

31 December 2016. The property will be included in the ‘recovered’ data when the keys are returned and the property vacated.

The Fraud Team liaise 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.

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 a Tenancy Management Officer was seconded 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 31 March 2017, with the Fraud Team part funding the secondment in 2016/17.

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.

Other tenancy investigations. In addition, in 2016/17 to date the Fraud Team investigations have recovered one Temporary Accommodation (TA) property which was not being used by the assigned tenant; and have prevented three fraudulent housing applications from being accepted.

12.3 Pro-active counter-fraud projects

During 2016/17, the Fraud Team have undertaken a number of pro-active counter-fraud projects in areas which have been identified as a high fraud risk. Progress reports on this work will be reported to the Corporate Committee on an ongoing basis; the findings and outcomes are all shared with service managers as the projects are delivered.

12.3.1 Gas safety – execution of warrant visits

In discussion with HfH managers in 2015, the Fraud Team were alerted to a number of Council properties where the Gas Safety contractor could not gain access. In 2015, an initial review was undertaken by the Fraud Team which identified the following outcomes:

(i) Tenant confirmed in occupation;
(ii) Case of concern for the TMO to follow up (tenant vulnerability); and
(iii) No confirmation of legitimate occupation of the tenant and recommendation that the TMO serve a Notice to Quit.

In 2016, the HfH Gas Safety Compliance Engineer requested further assistance from the Fraud Team; it was agreed that the Fraud Team would support HfH and a project was established in July 2016 whereby Fraud Investigators would accompany warrant officers on all executions of warrant of entry visits where it was suspected that the named tenant was not in occupation.

As a result, the Fraud Team are advised of the date for the warrant to be executed and attend the visit with the warrant officer. The Fraud Team aim to interview any occupant and establish the legitimacy of the tenancy, or investigate further if the property is empty, or identified as being potentially sublet or abandoned. The Fraud Team may also identify cases where the tenant is a vulnerable adult, in which case a referral is made to social workers and/or tenancy management. The Gas Safety Team can and do make referrals to the Fraud Team if they identify notice any potential fraud indicators through the normal course of their work.

Since July 2016, **four** properties have been recovered through this project - these are included in the total of 34 Council properties recovered in 2016/17. It is expected that a further ten properties may potentially be recovered as a result of this project. In addition, there have been six cases of concern referred to social workers and tenancy management officers for a review of the vulnerability of a tenant.

The project has now been extended for the Fraud Team to accompany Gas Safety warrant officers as they undertake visits in Temporary Accommodation. As a result of these visits, one property has been identified as both a case of concern and potential recovery.

12.3.2 Tenancy Block Visits

Feedback from HfH officers highlighted potential fraud risks in key sites (tenancy blocks) across the borough. It was agreed that the Fraud Team would undertake a pro-active tenancy fraud project focused on individual tenancy blocks to identify any properties that may be sub-let. The Fraud Team obtained a report on key housing stock sites which used data matching to identify potential sub-let properties. The Fraud Team identified Stellar House, High Road, Tottenham as a block which required further investigation.

In July 2016, the Fraud Team carried out visits to all 93 tenant addresses in Stellar House. In September 2016, further pre-arranged and unannounced follow up visits to 33 properties were undertaken where no access could be obtained initially. The Fraud Team identified **six** tenancies where access was not given, or obtained; all six tenants have been served with an NTQ by HfH's tenancy management team and the Fraud Team will continue to monitor the cases through any legal proceedings. One of these tenants has been traced to another address outside the borough and is also subject to a suspended Possession Order for rent arrears. It is expected that this property will be recovered. The Fraud Team will continue to work with HfH on further sites identified as high risk.

12.3.3 No Recourse to Public Funds (NRPF)

No Recourse to Public Funds (NRPF) is an immigration condition restricting access to public funds, including benefits such as welfare and housing. Families

and individuals may have a right to financial support (accommodation and subsistence) if certain statutory needs are identified. In these cases, the local authority has a duty to support the accommodation and subsistence costs of residents with NRPF.
These cases are often complex to identify, assess and resolve and unpredictable in terms of how much they cost and how long they last. The Council receive no funding to support this work and so have a dedicated NRPF team to provide accommodation and subsistence and to liaise with the Home Office to make sure that immigration queries are resolved as quickly as possible.

Since 2014, the Fraud Team have been working with the NRPF team to identify NRPF claimants who have:
(i) overstayed their rights to remain and/or support; and
(ii) a change of circumstances and not advised the Council.

In 2016/17, the Fraud Team have worked with the NRPF Team to be more pro-active and, in addition to re-active referrals, the Fraud Team now attend the initial assessment interview with the applicant to review all information provided to support their application. This is to prevent any NRPF claimant who is not eligible from obtaining funds fraudulently. As a result, this approach has led to either an application being refused support from the outset, or accommodation, or subsistence support being withdrawn in **ten** cases. There is also one identified instance of a Judicial Review (JR) being withdrawn. As a result of the new approach, Legal Services have confirmed that there has been a reduction in the number of new Judicial Review s (JR) applications in relation to NRPF.

The average cost of NRPF support per family based on accommodation and subsistence for a two child household is estimated to cost the Council approximately £20,000 a year. The Fraud Team will continue to work with the NRPF Team to develop processes to identify and prevent fraud.

12.4 Right-to-buy (RTB) applications

In 2016/17, the Fraud Team has approximately 300 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 the third quarter, 12 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.

12.5 Financial Values 2016/17

Tenancy Fraud – council stock and temporary accommodation: 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 2016/17 to date, **34** council stock properties and **one** temporary accommodation property have been recovered through the actions and investigations of the Fraud Team; therefore **a total value of £630k** can be attributed to the recovery, or cessation, of fraudulent council and temporary accommodation tenancies**.**

No Recourse to Public Funds: Overall, the 10 NRPF applications refused or stopped represent **over £200k** in potential expenditure; and means the available funds are used to support applicants who are eligible.

Right to Buy Fraud: Overall, the 70 RTB applications withdrawn or refused represent **over £7.2m** in potential RTB discounts; and means the properties are retained for social housing use.

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APPENDIX A

IN HOUSE AUDIT – IRREGULARITIES INVESTIGATED 01/04/16- 31/12/16 (Q3)

Directorate	Irregularity Type	No. of cases investigated	No. of cases proven at 31/12/2016	No. of Officers subject to Disciplinary Investigation	Disciplinary Outcome	Value (£) (if known)
Chief Operating Officer	Allegation of bribery	1	0	0	N/A	
Chief Operating Officer	Alleged misuse of position	1	0	0	N/A	
Chief Operating Officer	Alleged misuse of position	1	0	0	N/A	
Chief Operating Officer	Allegation of Council's IT	1	1	Referred to Service Management	N/A	
Chief Operating Officer	Allegation of bribery/ misuse of Council's IT	1	1	Referred to Service Management	N/A	
Chief Operating Officer	Alleged misuse of position	1	0	0	N/A	
Chief Operating Officer	Alleged misuse of Council resources	1	1	1	Dismissed Appeal rejected	
Adult Social Services	Alleged misuse of Council resources	1	1	1	Final Written Warning	
Chief Operating Officer	Allegation of Bribery	1	0	0	N/A	
Deputy Chief Executive	Alleged misuse of position	1	1	1	Resigned	
Deputy Chief Executive	Alleged misuse of position	1	1	1	Resigned	
Corporate Governance	Alleged misuse of position	1	1	1	Resigned	
Chief Operating Officer	Theft	1	1	1	Resigned	
TOTAL		**13**	**8**	**6**	**6**	

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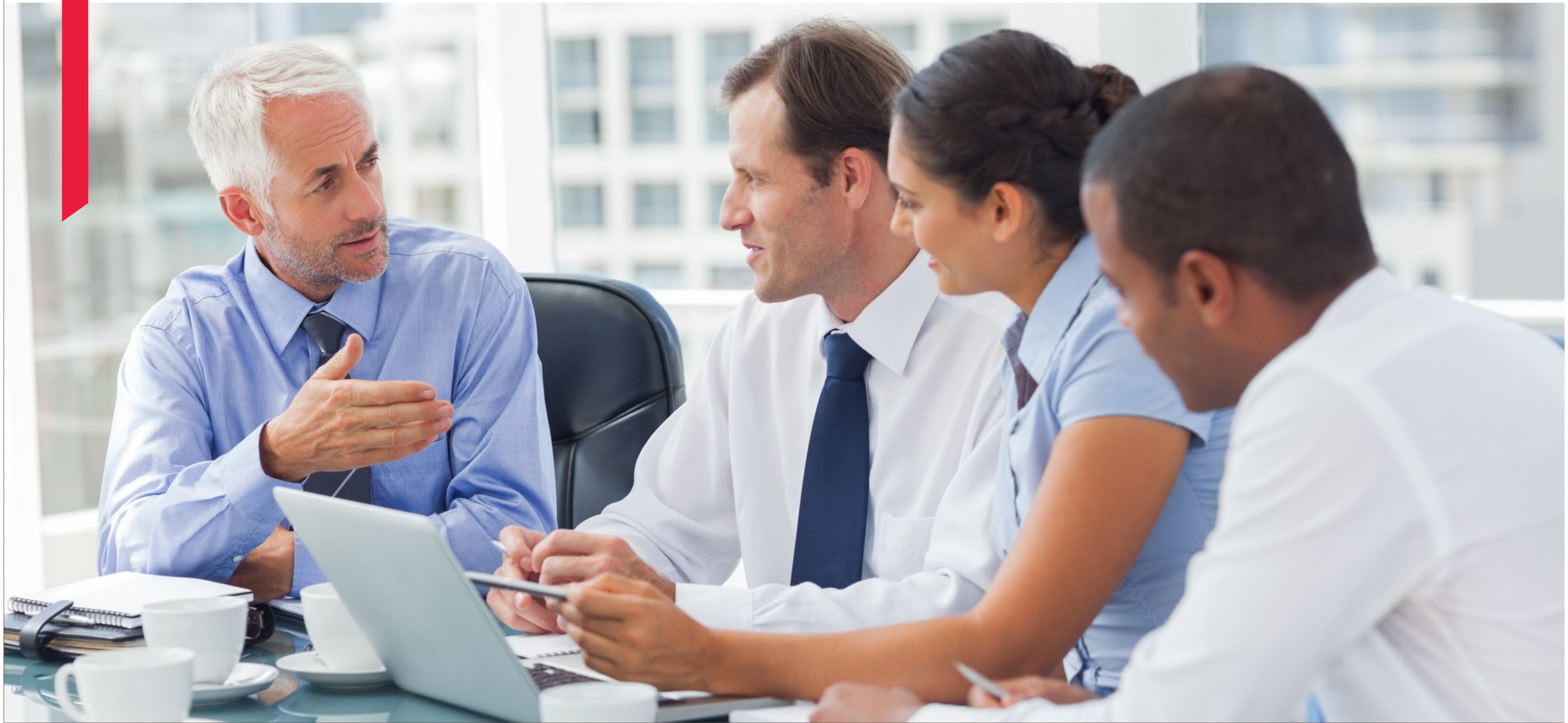

LONDON BOROUGH OF HARINGEY

GRANT CLAIMS AND RETURNS CERTIFICATION

In respect of claims and returns for the year ended 31 March 2016

16 January 2017

BDO

INTRODUCTION

Purpose of the report

This report summarises the main issues arising from our certification of grant claims and returns for the financial year ended 31 March 2016.

Public Sector Audit Appointments Ltd (PSAA) regime

PSAA has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

We undertake the grant claim certification as an agent of PSAA, in accordance with the Certification Instruction (CI) issued by them after consultation with the Department for Work and Pensions (DWP).

After completion of the tests contained within the CI the grant claim can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed.

Other certification work

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of the appointment by PSAA and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council continues to engage Grant Thornton, your previous auditor, to undertake a 'reasonable assurance' review of other certification work. This report does not include the findings of this other certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during our certification work.

Fees

We reported our original fee proposals in our Audit Plan. We have not had to amend our planned fees.

AUDIT AREA	PLANNED FEES (£)	FINAL FEES (£)
PSAA regime		
Housing benefits subsidy claim	33,190	33,190
Total fees	33,190	33,190

KEY FINDINGS

Below are details of the housing benefit subsidy return subject to certification by us for the financial year ended 31 March 2016. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided. An action plan is included at the Appendix of this report.

CLAIM OR RETURN	VALUE	QUALIFIED	AMENDED?	IMPACT OF AMENDMENTS
Housing benefit subsidy	£269,761,065	YES	YES	£610 increase in subsidy to the Council However, our qualification may reduce amount claimed by £1.5 million

HOUSING BENEFIT SUBSIDY	FINDINGS AND IMPACT ON RETURN
Local authorities responsible for managing housing benefit are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted on form MPF720A, which is subject to certification. Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A. The methodology and sample sizes are prescribed by PSAA and DWP. We have no discretion over how this methodology is applied. The draft subsidy return provided for audit recorded amounts claimed as subsidy of £269,761,065. The final submission was increased by £610 to £269,761,675.	Our audit of an initial 60 individual claimant files across different benefit types highlighted a significant number of errors in administering benefit, calculating subsidy entitlement or in the preparation of the form. Where an error in calculations suggests that benefit has been overpaid or amounts allocated to too high a subsidy recovery cell, guidance requires auditors to undertake extended 40+ testing of cases with similar characteristics or all cases in a small population. Such testing is also undertaken as part of our follow-up of prior year issues reported. The testing results in a correction of the error where this can be isolated or an extrapolation across the population. Where there is no impact on subsidy claimed, for example where the error always results in an underpayment of benefit, we are also required to report this within our qualification and observations letter. The results of the previous year audit and errors found in the initial testing resulted in 20 areas of 40+ testing, 1 area of additional testing, and 1 amendment to the claim form that increased subsidy claimed by £610. PSAA's methodology requires auditors to reperform a sample of the additional work undertaken by the Council to ensure conclusions have been satisfactorily recorded. We were able to rely on the conclusions drawn by the Council. Our work was completed and the claim was certified on 22 December, after the Government's deadline of 30 November. Our audit certification was qualified and we quantified the potential effect of the errors identified on the Council's entitlement to subsidy (based on our extrapolations) in a letter to the Department of Work and Pensions. The Council is awaiting the outcome of the DWP review of our qualification letter on its final subsidy amount for the year. This may reduce the amount claimable by the Council by up to £1.5 million. Significant improvements are required in the benefit assessments process to reduce the number of overpayments arising from local authority errors and administrative delays. A summary of our audit findings can be found on the following pages.

DETAILED FINDINGS

Benefit type	Error type	Impact on claim
Non-HRA rent rebate	Incorrect self-employed income figure	Additional testing identified ten cases where an incorrect amount of self-employed income had been applied. Seven cases resulted in underpaid benefit (total error of £2,318) and two cases in overpayment of benefit (total error £325). In addition, three cases had errors that impact on the amount of overpaid benefit in the current year (total value £850) and four cases had errors that impact on prior year overpayments (total error £1,582). The overall impact of extrapolating these errors over the sub-population of self employed income cases is a reduction in overpayments of £3,760 in the current year and an increase of £15,039 in prior years. At the applicable subsidy rates, this potentially reduces subsidy claimable by £3,768.
Non-HRA rent rebate	Incorrect earned income figure	Initial testing identified four cases that had the incorrect earned income figure applied to the claimant's benefit calculation that created an overpayment of benefit awarded (total error £189). Additional testing identified a further fourteen cases where an incorrect amount of income had been applied. Five cases resulted in underpaid benefit (total error of £1,540) and seven cases in overpayment of benefit (total error £1,675). In addition, six cases had errors that impact on the amount of overpaid benefit in the current year (total value £339) and four cases had errors that impact on prior year overpayments (total value £371). The overall impact of extrapolating these errors over the sub-population of earned income cases is an increase in overpayments of £49,741 in the current year and £11,606 in prior years. At the applicable subsidy rates, this potentially reduces subsidy claimable by £42,476.

DETAILED FINDINGS

Benefit type	Error type	Impact on claim
Non-HRA rent rebate	Incorrect child tax credit figure	Initial testing identified one case where the incorrect child tax credit figure had been applied to the claimant's benefit calculation that created both an underpayment (total underpayment £23) and overpayment of benefit awarded (total overpayment £25). Additional testing identified a further eight cases where an incorrect amount of child tax credit had been applied. Four cases resulted in no change or underpaid benefit (total error of £186) and four cases in overpayment of benefit (total overpayment £204). In addition, four cases had errors that impact on the amount of overpaid benefit in the current year (total value £7) and the prior year (total value £2,122). The overall impact of extrapolating these errors over the sub-population of child tax credit cases is an increase in the overpayments of benefit paid of £8,280 in the current year and a decrease in overpayments of benefit paid in prior years of £82,803. At the applicable subsidy rates, this potentially reduces subsidy claimable by £41,058.
Non-HRA rent rebate	Incorrect working tax credit figure	Initial testing identified one case where the incorrect working tax credit figure had been applied to the claimant's benefit calculation that created both an underpayment (total underpayment £82) and overpayment of benefit awarded (total overpayment £86). Additional testing identified a further three cases where an incorrect amount of working tax credit had been applied. Two cases resulted in underpaid benefit (total error of £107) and one case had errors that resulted in an overpayment of benefit (total error £1). The overall impact of extrapolating these errors over the sub-population of working tax credit cases is an increase in the overpayments of benefit paid of £3,407. At the applicable subsidy rates, this potentially reduces subsidy claimable by £2,044.

DETAILED FINDINGS

Benefit type	Error type	Impact on claim
Non-HRA rent rebate	Incorrect child care costs figure	Initial testing identified one case where the incorrect child care costs figure had been applied to the claimant's benefit calculation resulting in an overstatement of a prior year overpayment (total value £40). Additional testing identified a further seven cases where an incorrect amount of child care costs had been applied. Five cases resulted in no change or underpaid benefit (total error of £1,373) and two cases in overpayment of benefit (total error £539). In addition, four cases were identified where the claimant's child care costs were misstated, resulting in an overstatement of current year overpayments (total value £974), and four cases in the prior year (total value £1,150). The overall impact of extrapolating these errors over the sub-population of child care cost cases is an increase in overpayments of £2,032 in the current year and £6,117 in prior years. At the applicable subsidy rates, this potentially reduces subsidy claimable by £1,137.
Non-HRA rent rebate	Incorrect classification of eligible overpayments	Additional testing identified seven cases where an incorrect classification of overpayment as an eligible overpayment had been applied (total error of £495). In five cases overpayments eligible for subsidy were found to be overstated and LA error overpayments correspondingly understated (total error of £390) and in two cases overpayments eligible for subsidy were found to be overstated and technical overpayments correspondingly understated (total error of £105). The overall impact of extrapolating these errors over the sub-population of eligible overpayment cases is an increase in the amount of LA error overpayments of £16,936 and technical overpayments of £4,414, with a corresponding decrease in eligible overpayments of £20,810. At the applicable subsidy rates, this potentially reduces subsidy claimable by £8,324.

DETAILED FINDINGS

Benefit type	Error type	Impact on claim
HRA rent rebate	Incorrect self-employed income figure	Additional testing identified eight cases where an incorrect amount of self-employed income had been applied. Seven cases resulted in no change to or underpaid benefit (total error of £181) and one case in an overstatement of overpayments (total value £3). The overall impact of extrapolating these errors over the sub-population of self-employed income cases is an increase in the amount of benefit paid on which subsidy is to be claimed of £52. At the applicable subsidy rates, this potentially increases subsidy claimable by £52.
HRA rent rebate	Incorrect earned income figure	Initial testing identified two cases where the incorrect earned income figure had been applied to the claimant's benefit calculation that created an overpayment of benefit awarded (total error £122). Additional testing identified a further twelve cases where an incorrect amount of income had been applied. Four cases resulted in underpaid benefit (total error of £489)and eight cases in overpayment of benefit (total error £2,262). In addition, three cases had errors that impact on the amount of overpaid benefit in the current year (total value £489) and the prior year (total value £137). The overall impact of extrapolating these errors over the sub-population of earned income cases is an increase in the overpayments of benefit paid of £137,124 in the current year and a decrease of overpayments in prior years of £9,973. At the applicable subsidy rates, this potentially reduces subsidy claimable by £89,706.

DETAILED FINDINGS

Benefit type	Error type	Impact on claim
HRA rent rebate	Incorrect child tax credit figure	Additional testing identified three cases where an incorrect amount of child tax credit had been applied. One case resulted in underpaid benefit (total error of £72) and two cases in overpayment of benefit (total error £274). In addition, three cases had errors that impact on the amount of overpaid benefit in the current year (total value £72). The overall impact of extrapolating these errors over the sub-population of child tax credit cases is an increase in the overpayments of benefit paid of £12,526. At the applicable subsidy rates, this potentially reduces subsidy claimable by £14,262.
HRA rent rebate	Incorrect child care costs figure	Additional testing identified sixteen cases where an incorrect amount of child tax credit had been applied. Seven cases resulted in underpaid benefit (total error of £2,300) and nine cases in overpayment of benefit (total error £2,238). In addition, four cases had errors that impact on the amount of overpaid benefit in the current year (total value £49) and three cases in the prior year (total value £242). The overall impact of extrapolating these errors over the sub-population of child care costs cases is an increase in the overpayments of benefit paid of £13,600 in the current year and a decrease of overpayments in prior years of £1,046. At the applicable subsidy rates, this potentially reduces subsidy claimable by £11,200.
HRA rent rebate	Incorrect non-dependents earnings figure	Additional testing identified one case where an incorrect amount of non-dependents earnings had been applied resulting in an overpayment of benefit (total error £399). In addition, one case was identified where the claimant's non-dependents earnings figure was misstated resulting in an overstatement of prior year overpayments (total value £2,288). The overall impact of extrapolating these errors over the sub-population of non-dependent earnings cases is an increase in the overpayments of benefit paid of £11,585 and a decrease of overpayments in prior years of £69,510. At the applicable subsidy rates, this potentially reduces subsidy claimable by £39,389.

DETAILED FINDINGS

Benefit type	Error type	Impact on claim
HRA rent rebate	Incorrect state retirement pension figure	Additional testing identified twelve cases where an incorrect amount of state retirement pension had been applied. Eight cases resulted in underpaid or no impact on benefit (total error of £670) and four cases had errors that resulted in an overpayment of benefit (total error £139). In addition, three cases had errors that impact on the amount of overpaid benefit in the prior year (total value £2,921). The overall impact of extrapolating these errors over the sub-population of state retirement pension cases is an increase in the overpayments of benefit paid of £2,990 and an increase of overpayments in prior years of £64,295. At the applicable subsidy rates, this potentially increases subsidy claimable by £22,429.
HRA rent rebate	Incorrect classification of eligible overpayments	Our initial testing identified one case where there was a misclassification of the overpayment (total error £463). Additional testing identified six cases where an incorrect classification of overpayment as an eligible overpayment had been applied (total error of £3,229). In five cases, eligible overpayments were found to be overstated and LA error overpayments correspondingly understated (total error of £3,181) and in one case eligible error overpayments was found to be overstated with correspondingly understated of subsidy claimed (total error of £48). The overall impact of extrapolating these errors over the sub-population of eligible overpayment cases is an increase in the amount of LA error overpayments of £144,820 and an increase in benefit correctly paid of £1,908. At the applicable subsidy rates, this potentially reduces subsidy claimable by £58,691.
Rent Allowances	Incorrect self-employed income figure	Additional testing identified ten cases where an incorrect amount of income had been applied. Eight cases resulted in underpaid benefit (total error of £5,217) and two cases in overpayment of benefit (total error £211). In addition, three cases had errors that impact on the amount of overpaid benefit in the current year (total value £328). The overall impact of extrapolating these errors over the sub-population of self-employed income cases is a decrease in the amount of LA error overpayments of £21,255, an increase in the amount of eligible error overpayments of £13,410 and an increase benefit correctly paid of £7,845. At the applicable subsidy rates, this potentially increases subsidy claimable by £13,211.

DETAILED FINDINGS

Benefit type	Error type	Impact on claim
Rent Allowances	Incorrect earned income figure	Initial testing identified two cases where the incorrect earned income figure had been applied to the claimant's benefit calculation that created an overpayment of benefit awarded (total error £948). Additional testing identified a further fourteen cases where an incorrect amount of income had been applied. Nine cases resulted in underpaid benefit (total error of £4,338) and five cases in overpayment of benefit (total error £388). In addition, five cases had errors that impact on the amount of overpaid benefit in the current year (total value £459) and three cases in the prior year (total value £1,101). The overall impact of extrapolating these errors over the sub-population of earned income cases is an increase in the amount of LA error overpayments of £104,850, an increase in the amount of eligible overpayments of £113,049, a decrease in benefit correctly paid in the current year of £217,899, and an increase of overpayments in prior years of £217,899. At the applicable subsidy rates, this potentially decreases subsidy claimable by £114,573.
Rent Allowances	Incorrect working tax credit figure	Additional testing identified three cases where an incorrect amount of working tax credit had been applied resulting in an overpayment of benefit (total error £136). In addition, three cases had overpayments that were misclassified between LA error overpayments and eligible overpayments, with cell LA error overstated (total value £5) and eligible error understated (total value £5). The overall impact of extrapolating these errors over the sub-population of working tax credit cases is an increase in the amount of LA error overpayments of £11,301, an increase in the amount of eligible overpayments of £7,674, and a decrease in benefit correctly paid of £18,975. At the applicable subsidy rates, this potentially decreases subsidy claimable by £15,906.

DETAILED FINDINGS

Benefit type	Error type	Impact on claim
Rent Allowances	Incorrect private pension figure	Additional testing identified five cases where an incorrect amount of private pension had been applied. Two cases resulted in underpaid benefit (total error of £8) and three cases in overpayment of benefit (total error £1). In addition, two cases had errors that impact on the amount of overpaid benefit in the current year (total value £205). The overall impact of extrapolating these errors over the sub-population of private pension cases is an increase in the amount of LA error overpayments of £22 a decrease in the amount of eligible overpayments of £11, a decrease in benefit correctly paid in the current year of £11, and a decrease of overpayments in prior years of £2,291. At the applicable subsidy rates, this potentially decreases subsidy claimable by £933.
Rent Allowances	Incorrect classification of prior year eligible overpayments	Initial testing identified one case that that had been incorrectly classified as an eligible overpayment as part of the claimant's benefit calculation (total error £1,019). Additional testing identified three cases where an incorrect classification of overpayment as an eligible overpayment had been applied (total error of £767). In all cases prior year eligible overpayments was found to be overstated and prior year LA error overpayments correspondingly understated. In addition, three cases were identified where the prior year overpayment figure was misstated resulting in an overstatement of prior year eligible overpayments (total value £297). The overall impact of extrapolating these errors over the sub-population of eligible overpayments cases is an increase in the amount of LA error prior year overpayments of £100,762, a decrease in the amount of eligible prior year overpayments of £100,762, and a decrease of overpayments in prior years of £14,928. At the applicable subsidy rates, this potentially decreases subsidy claimable by £46,276.

DETAILED FINDINGS

Benefit type	Error type	Impact on claim
Rent Allowances	Incorrect rent figure	Initial testing identified one case where an incorrect rent figure had been applied to the claimant's benefit calculation. The Council had identified this as part of the claim preparation process and has made amendments to the benefit assessment in the 2016/17 year to correct this error. Additional testing identified two cases where an incorrect rent figure had been applied as part of the claimant's benefit calculation. One case created an underpayment of benefit awarded (total error £793) and one case identified that a prior year overpayment figure was misstated resulting in an overstatement of both prior year LA error and eligible overpayments (total value £24). The overall impact of extrapolating these errors over the sub-population of rent cases is a decrease in the amount of LA error prior year overpayments of £3,615 and a decrease in the amount of eligible prior year overpayments of £9,039. At the applicable subsidy rates, this potentially decreases subsidy claimable by £3,615.
Reconciliation	Reconcile difference of benefit awarded to amounts paid	The benefit granted total used in the claim form is lower than the reconciliation report for amount of benefit paid by £7,738. The Council has used the net lower amount in preparing the claim form and may be under claiming subsidy entitlement. However, there is a gross difference for creditor payments (non HRA and rent allowances) where the Council appears to have claimed £1,036 too much, offset by rebates (HRA) awarded of £8,774. This potentially decreases subsidy claimable by £1,036.
Overpayments threshold	Local authority and administrative delays overpayments	Local authorities are given a subsidy allowance to reclaim overpayments arising from local authority error and administrative delays. Full subsidy is claimable where these errors total no more than 0.48% of benefit, at 40% if these are no greater than 0.54% of benefit, and no subsidy if the upper threshold is exceeded . The Council has reported overpayments of £1,031,139 which is below the lower threshold of £1,259,365. The impact of correcting for the extrapolations above would increase these overpayments by £520,758, to £1,551,897, which would exceed the upper threshold by £135,112. This potentially decreases subsidy claimable by £1,031,139.

APPENDIX

APPENDIX: 2015/16 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
A significant number of errors were identified with the benefit calculations for some claimants. This resulted in a number of cases where Housing Benefit was paid at an incorrect rate.	Reinforce the key messages from the subsidy workshops carried out in December 2015. Re-visit the results of checking that is being undertaken on assessors work to reinforce the messages about the errors that are identified. Carry out regular checking of a number of claims to ensure that: • Income has been input correctly • Overpayments have been correctly classified	High	Throughout the year we have carried out a number of actions to reduce errors. In July 16 we held common error workshops with each processing team, the sessions covered analysis of recent errors . Each officer undertook a test to confirm their understanding. As a result of this audit, we will review the types of errors made and target additional training for all staff as required. All officers are performance managed and have My conversation meetings with their line manager on a regular basis and every error identified is discussed in detail. Where persistent errors occur action is taken. Monthly Finance & Management meetings review QA and as a result of analysis of errors, specific actions are put in place to reduce errors as required.	Jim Brady	On-going
	Perform additional checks on the assessments that are undertaken by new and temporary staff and staff with limited experience in completing these assessments.	High	We have been reducing reliance of temporary staff and where possible, permanent officers are now being recruited. We already have different levels of QA in place for different members of staff: 100% for new starters, 30% for staff with high error rates and 4% random checking.	Jim Brady	On-going

APPENDIX: 2015/16 ACTION PLAN

CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
A significant number of errors were identified with the benefit calculations for some claimants. This resulted in a number of cases where Housing Benefit was paid at an incorrect rate.	Check a sample of claims during the period from April 2016 – March 2017 in advance of closing the Benefits system for the year and producing the subsidy claim. Ensure that any amendments required to cases are made before the subsidy claim form is run.	High	Throughout the year we target areas of work that are high risk and have been identified through QA and subsidy monitoring. Following this audit, we will revisit the checking regime to ensure the checking targets the most appropriate areas of error / risk.	Helen Hili / Claire Maunders	February 2017
	Seek to retain and recruit experienced housing benefit staff that are more proficient at delivering accurate case processing.	High	There has been a rolling recruitment programme in place since October 15 . We compete for staff with neighbouring Boroughs and recruitment of experienced officers is very difficult. We have appointed 9 new Service Officers this year and will continue recruitment until all vacancies are filled. Staff are being fully trained and continue to receive support and coaching from experienced officers.	Helen Hili	On-going

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LONDON BOROUGH OF HARINGEY

Audit Progress Report - 2015/16

January 2017

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Agenda Item 11

INTRODUCTION

Background

This report is intended to provide the Corporate Committee with a summary of all work completed in respect of the 2015/16 financial year.

The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act:

Audit of the financial statements

- to be satisfied that the accounts present a true and fair view, and comply with the requirements of the enactments that apply to them
- to be satisfied that proper practices have been observed in the preparation of the accounts

Value for money arrangements

- to be satisfied that the organisation has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources

Reporting

- to issue an audit plan that sets out how the auditor intends to carry out their duties
- to report the findings of the audit to those charged with governance
- to express an opinion on the accounts
- to form an opinion on the organisation's arrangements to secure economy, efficiency and effectiveness in the use of resources
- to issue a statement on the consolidation schedules produced for the purposes of preparing Whole of Government accounts (whether these are consistent with the financial statements)
- to certify the completion of the audit
- to issue an annual audit letter highlighting the results of the auditor's work.

Certification work

- to certify the authority's Housing Benefit Subsidy claim form in accordance with instructions issued by PSAA.

Conclusions

We have included as a 'RAG' conclusion for all work completed in the report.

ASSESSMENT		EXPLANATION
RED	R	Modification of audit report or opinion / significant concerns.
AMBER	A	Some concerns over governance or finance.
GREEN	G	No significant issues to report.

AUDIT PROGRESS 2015/16

AUDIT AREA	SCOPE	PROGRESS	ISSUES TO NOTE	RAG
PLANNING				
Planning letter	We are required to provide you with a planning letter setting out the scope of the audit for the year and the proposed fees set by Public Sector Audit Appointments Limited (PSAA).	Planning letters were issued for the Council's accounts and the pension fund.	No significant issues to bring to your attention.	**N/A**
Audit plan	We are required to report to you the results of our detailed audit planning and the proposed audit response to significant audit risks ahead of commencement of the audit work.	We issued our audit plans in February 2016.	No significant issues to bring to your attention.	**N/A**
FINANCIAL STATEMENTS				
Review of internal controls	Audit of the significant financial systems that support the financial statements.	Review of financial systems and controls completed. Findings reported to the Corporate Committee on 15 September 2016.	Significant deficiencies in internal controls were identified covering: • Sufficient information to be included on journal posting to the ledger • Bank reconciliations • Accuracy of membership records for pension fund members Other deficiencies were noted for: • Employment contracts • Funds held on behalf of clients • Single person discounts for council tax • Declaration of interests to include company directorship and mandatory returns for Pension Committee members.	A

AUDIT PROGRESS 2015/16

AUDIT AREA	SCOPE	PROGRESS	ISSUES TO NOTE	RAG
FINANCIAL STATEMENTS				
Financial statements - Council's accounts	Audit of the draft financial statements to determine whether these give a true and fair view and have been prepared in accordance with the CIPFA's Code of Practice.	The findings of our audit on the financial statements were reported to the Corporate Committee on 15 September 2016. True and fair opinion dated 29 September 2016.	Corrections were made to net-off internal recharges across departments from income and expenditure. Non-material issues were noted in respect of the following: • Further work should be undertaken to calculate depreciation on HRA dwellings based on a full component basis • Housing benefits overpayments (debt) for claimants with deductions from on-going benefit and provision for non-collection should be recognised in the financial statements.	G
Financial statements - pension fund accounts	Audit of the draft financial statements to determine whether these give a true and fair view and have been prepared in accordance with the CIPFA's Code of Practice.	The findings of our audit on the financial statements were reported to the Pensions Committee and Board on 20 September 2016. True and fair opinion dated 29 September 2016.	Some non-material differences were noted between the contributions received in the pension fund bank account each month and the total contributions per Haringey Council payroll.	G
Whole of Government Account (WGA) schedules audit	We are required to provide an opinion whether the Council's WGA consolidation pack is consistent with the financial statements.	The opinion on the consistency of the consolidation pack was issued on 21 October 2016.	The Council has not been accurately coding a number of counter party transactions in accordance with the Treasury's schedule of coding, and therefore these were not being correctly recorded for elimination in the WGA.	A

AUDIT PROGRESS 2015/16

AUDIT AREA	SCOPE	PROGRESS	ISSUES TO NOTE	RAG
USE OF RESOURCES				
Review of arrangements to secure economy, efficiency and effectiveness	We are required to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.	The findings of our audit on use of resources were reported to the Corporate Committee on 15 September 2016. Clean opinion dated 29 September 2016.	Whilst there are uncertainties around future grant funding, demographics and demand pressures the planning and assumptions appear to be adequate. The Council understands the financial challenges that it faces and has adequate arrangements in place to manage the financial position moving forward. However, the Council will need to closely monitor demand led services, the delivery of the savings necessary to meet the MTFS and the impact of the changes being implemented on the delivery of services.	G
QUESTION AND OBJECTIONS				
Exercise of auditor powers	Objections to the lawfulness of items in the accounts were received in respect of Lender Option Borrower Option (LOBO) loans taken out by the Council many years ago.	We have completed our initial review of LOBO loans and are currently not minded to challenge the decisions taken by the Council or the lawfulness of these transactions.	Upon completion of the work, we will issue a statement of reasons to the objectors summarising our findings and what, if any, further action we intend to take.	TBC
REPORTING				
Audit certificate	To certify the completion of the audit at the point that the auditor's responsibilities in respect of the audit of the period covered by the certificate have been discharged.	Note that the audit certificate can be issued only following the conclusion and reporting on all objections (see above).	The audit certificate will remain open until the objections work has been completed.	TBC
Annual audit letter	Public-facing summary of audit work and key conclusions for the year.	Annual Audit Letter issued on 19 October 2016.	Summary of the issues noted above.	N/A

AUDIT PROGRESS 2015/16

AUDIT AREA	SCOPE	PROGRESS	ISSUES TO NOTE	RAG
GRANTS AND RETURNS				
Review of the Housing Benefit Subsidy claim	The scope of our certification is determined by PSAA, in consultation with the Department of Work and Pensions (DWP) to whom we report.	The return was certified on 22 December 2016.	A significant number of errors were found in benefit calculations for claimants as a result of local authority errors that may result in loss of subsidy recoverable by the Council.	R
Grants report	Summary of our certification work for the year.	Grants report issued 16 January 2017.	Summary of the issues noted above.	N/A

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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