Haringey Council

# Corporate Committee

THURSDAY, 29TH JANUARY, 2015 at 19:45 HRS - CIVIC CENTRE, HIGH ROAD, WOOD GREEN, N22 8LE.

**MEMBERS:** Councillors Meehan (Chair), Griffith (Vice-Chair), Adamou, M Blake, Ejiofor, Elliott, Engert, Ibrahim, Jogee, Opoku, Ozbek and Wright

Quorum: 3 Councillors

**Please note the start time of the meeting.**

**AGENDA**

**1. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)**

**2. 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 11).

**3. 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.

## 4. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

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

## 5. MINUTES (PAGES 1 - 6)

To consider and agree the minutes of the meeting held on 25 November 2014.

## 6. GRANTS CERTIFICATION REPORT (PAGES 7 - 16)

Report of Grant Thornton summarising their overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## 7. EXTERNAL AUDIT PROGRESS UPDATE (PAGES 17 - 30)

Report of Grant Thornton on progress delivering their responsibilities as the Council's external auditors.

## 8. INTERNAL AUDIT PROGRESS REPORT - 2014/15 QUARTER 3 (PAGES 31 - 64)

Report of the Assistant Director of Corporate Governance to advise the Committee on the work undertaken by the Internal Audit Service in completing the 2014/15 annual audit plan, together with the responsive and pro-active fraud investigation work, including housing benefit fraud investigations.

## 9. TREASURY MANAGEMENT STRATEGY STATEMENT 2015/16 - 2017/18 (PAGES 65 - 100)

Report of the Assistant Director of Finance to present the Treasury Management Strategy Statement for 2015/16 to 2017/18 prior to its submission to Full Council in February 2015 for final approval.

## 10. DELEGATED DECISIONS, SIGNIFICANT ACTIONS, URGENT ACTIONS (PAGES 101 - 106)

Report of the Assistant Director of Corporate Governance and Monitoring Officer to inform the Committee of non-executive delegated decisions, significant actions and any urgent decisions taken by the Chair.

## 11. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

## 12. DATE AND TIME OF NEXT MEETING

Tuesday 24 March 2015 at 7.00pm.

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Wednesday, 21 January 2015

**MINUTES OF THE CORPORATE COMMITTEE**
**TUESDAY, 25 NOVEMBER 2014**

Councillors: Meehan (Chair), Griffith (Vice-Chair), Adamou, M Blake, Ejiofor, Elliott, Engert, Ibrahim, Jogee, Opoku, Ozbek and Wright

| MINUTE NO. | SUBJECT/DECISION | ACTION BY |
|---|---|---|
| **CNCL377.** | **APOLOGIES FOR ABSENCE (IF ANY)**<br><br>Apologies for lateness were received from Councillor Jogee and from Paul Dossett (Grant Thornton). | |
| **CNCL378.** | **URGENT BUSINESS**<br><br>There were no items of urgent business. | |
| **CNCL379.** | **DECLARATIONS OF INTEREST**<br><br>Councillor Wright declared an interest in agenda item 11 as a Governor of Highgate Wood School. The interest declared was not a disclosable pecuniary or prejudicial interest. | Oliver Craxton |
| **CNCL380.** | **DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS**<br><br>There were none. | |
| **CNCL381.** | **MINUTES**<br><br>**RESOLVED**:<br><br>That the minutes of the meeting held on 29th September 2014 be approved as a correct record of the proceedings and the Chair be authorised to sign them. | Oliver Craxton |
| **CNCL382.** | **TREASURY MANAGEMENT SEPTEMBER 2014 MID-YEAR ACTIVITY AND PERFORMANCE UPDATE**<br><br>George Bruce, Head of Finance – Treasury and Pensions, introduced the report as set out in the agenda.<br><br>**RESOLVED**:<br><br>That the Treasury Management activity undertaken during the six months to 30th September 2014, and the performance achieved, be noted. | |
| **CNCL383.** | **TREASURY MANAGEMENT STRATEGY STATEMENT 2015/16 - 2017/18**<br><br>George Bruce, Head of Finance – Treasury and Pensions, introduced | |

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| | the report as set out in the agenda.<br><br>In response to a question from the Committee, it was reported that new counterparties included in the list for investments were Santander UK, Svenska Handelsbanken, National Australian Bank and Australia and New Zealand Banking Group.<br><br>In response to concern expressed by members of the Committee in regard to having to take a decision on this matter without having first received sufficient training, officers stated that regular training sessions were provided for members of the Committee. However in response to the Committee's concerns, the Assistant Director – Finance gave an undertaking that a training session specifically relating to this matter would be provided by Arlingclose, an independent treasury advisory company, commencing at 7.00pm, immediately before the next meeting of the Committee.<br><br>It was noted that following its consideration at this meeting, the Treasury Management Strategy Statement would be scrutinised by the Overview and Scrutiny Committee before being re-submitted to the Corporate Committee in January 2015, after which it would be presented to Full Council in February 2015 for final approval.<br><br>**RESOLVED:**<br><br>That the proposed Treasury Management Strategy Statement for 2015/16 to 2017/18 be agreed and approved for submission to the Overview and Scrutiny Committee, before being re-presented to Corporate Committee for further consideration at its meeting in January 2015, subject to any updating to reflect the agreed Capital Programme. | George Bruce/ Kevin Bartle |
| **CNCL384.** | **INDEPENDENT REVIEW OF THE INTERNAL AUDIT FUNCTION**<br><br>The report was introduced by Anne Woods, Head of Audit and Risk Management, who informed that Committee that all local authorities were required to have had an independent review of their internal audit function carried out by 1 April 2018. Anne Woods went on to draw attention to the findings arising from the external assessment of the Council's internal audit service, and the arising recommendations which were included in the Action Plan attached to the report. She went on to say that the Council would work closely with Grant Thornton, the Council's external auditor, to expedite the implementation of the recommendations.<br><br>The Committee thanked Anne Woods and her staff for the report and the positive information it contained.<br><br>**RESOLVED**:<br><br>1. That the findings of the independent review, attached at Appendix A to the report, which confirm that, in accordance with | |

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| | PSIAS definitions, Haringey Council's internal audit service generally complies with the PSIAS requirements, be noted.<br><br>2. That the Action Plan, attached at Appendix B to the report, to address the recommendations included in the peer review, be approved. | |
| **CNCL385.** | **ANNUAL AUDIT LETTER**<br><br>The Committee considered the Annual Audit Letter for the London Borough of Haringey, which was introduced by Paul Jacklin of Grant Thornton.<br><br>The Chair stated that the recommendations listed in Appendix A to the report were being acted upon and were on target for implementation by the due date stated.<br><br>The Assistant Director, Finance informed the Committee that following its consideration by this Committee, the Annual Audit Letter would be submitted to Cabinet at its meeting in January 2015 for approval.<br><br>**RESOLVED**:<br><br>That the contents of the report be noted. | |
| **CNCL386.** | **EXTERNAL AUDIT PROGRESS UPDATE**<br><br>Paul Jacklin, of Grant Thornton, introduced the report and stated that two items relating to the certification of the Teachers' Pensions claim and the Council's Housing Benefit and Council Tax Benefit claim were still being worked on by Grant Thornton, and that consequently a further report on these matters would be submitted to the Committee at its meeting in January 2015.<br><br>Anne Woods, Head of Audit and Risk Management, stated that a report detailing the Council's overall performance in key areas would be submitted to the Committee either at its meeting in January 2015, or the subsequent meeting in March 2015, and that the report would include benchmarking comparisons against other London Boroughs. Members of the Committee were concerned that the benchmarking information contained in the forthcoming report would be restricted to London Boroughs and not extended to include all local authorities, and they asked what was the percentage of fraud discovered in terms of the Council's overall turnover.<br><br>Anne Woods, Head of Internal Audit and Risk Management, stressed that the benchmarking data was restricted to what was provided to the Council by the Audit Commission, and that the data gave comparator information against other authorities selected by the Commission. However, she undertook to include in the forthcoming report as much comparator information as was possible, based on what was provided to the Council by the Audit Commission, and also undertook to contact | Anne Woods |

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| | a select number of other local authorities, including Birmingham City Council and Bournmouth Borough Council, with the request that they share benchmarking data with Haringey Council.<br><br>**RESOLVED**:<br><br>That the progress report provided by the external auditor, Grant Thornton, be noted. | |
| **CNCL387.** | **QUARTERLY INTERNAL AUDIT REPORT**<br><br>Anne Woods, Head of Audit and Risk Management, introduced the report, and in doing so provided the Committee with a verbal update on audits which had been carried out at Highgate Wood School and Tiverton School. In response to questions from the Committee she reported that considerable work had been carried by the Corporate Anti-Fraud Team working with Registered Providers in order to tackle housing and tenancy fraud. Anne Woods went on to say that training of Registered Providers had been, and would continue to be, carried out, and that over the next six months as more staff of the Registered Providers were trained up the Council would gradually withdraw from leading on this matter, with the Registered Providers taking the lead role.<br><br>Anne Woods informed the Committee that the key amnesty associated with tenancy fraud had so far resulted in one set of keys being handed back, but it was expected that further keys would be handed in before the amnesty period expired. She then stated that the property for which the keys had been handed back was due to be re-let during the forthcoming week. Anne Woods went on to inform the Committee that people who had pending legal action against them being taken by the Council in regard to housing fraud had been written to asking them to take part in the amnesty. If the individuals agreed to take part it would result in a 'win-win' situation as those concerned avoided acquiring a criminal record and the Council would get the keys to the associated properties back.<br><br>In response to further questions, Anne Woods stated that in regard to audit progress reports, a summary of all finalised audit reports was provided on a monthly basis to members of the Committee and that the summary report included details of the key findings together with all recommendations made, including Priority 1, 2 and 3 recommendations, for each audit. She then informed the Committee that when the Council was reclaiming properties it took measures, including liaising with all appropriate agencies, to ensure that the departing individuals or families, particularly those with children where the Council had a duty to re-house, were not left homeless. Anne Woods continued by stating that in regard to tenancy fraud she was confident that the targets set would be achieved, and that In regard to Right to Buy fraudulent applications, two staff had been re-assigned to deal with this, resulting in the Council out-performing its targets. Anne Woods stressed that housing was a valuable resource to the Council | |

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| | and therefore resources were allocated where possible to deal with housing fraud, and she went on to inform the Committee that the Council was now working with three banks, and their anti-fraud teams in order to share information relating to potential fraud cases in order that appropriate action could be taken against those concerned.<br><br>In response to a question from the Chair regarding the Pan-London (Major) Equipment Service, Anne Woods undertook to check if the deadline given as being the end of October 2014 had been further revised.<br><br>**RESOLVED**:<br><br>That the audit coverage and counter-fraud work completed be noted, along with the actions taken during the quarter to ensure audit recommendations are implemented and to address the outstanding recommendations during the second quarter 2014/15. | Anne Woods<br><br>Anne Woods |
| **CNCL388.** | **CORPORATE RISK REGISTER**<br><br>Anne Woods, Head of Audit and Risk Management, introduced the report and informed the Committee that the Corporate Risk Register was reviewed on a quarterly basis by the Council's Statutory Officers Group. In relation to the risk identified as 'Failure to manage significant future reductions in local and national income streams' it was noted that the Council's rent policy was due to be confirmed in the near future by Cabinet, prior to submission to Full Council for final approval in February 2015.<br><br>**RESOLVED**:<br><br>1. That the Corporate Risk Register be noted and approved, subject to the following amendments:<br><br>a) The revision of the wording in the 'Future Action(s)' column relating to the risk 'Failure to manage significant future reductions in local and national income streams' in order to clarify what actions had been identified.<br><br>b) The revision of the wording 'Implement and embed a comprehensive and coordinated Early Years and Early Help offer' in the 'Future Action(s)' column relating to the risk: 'Children's Services and Schools and Learning: Failure to ensure that the process for every child and young person in Haringey to have high quality education and lead healthy and fulfilling lives are in place' in order to provide more clarity.<br><br>c) The revision of the wording 'Work to discharge duty to the Private Rental Sector. Determine rent policy' in the 'Future Action(s)' column relating to the risk: 'Failure to manage the impact of Welfare Reform Act and Benefits Cap on Council | Anne Woods |

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|---|---|---|
| | resources, residents and applicants for support' in order to provide more clarity.<br><br>d) The insertion of the wording 'No further action' being included in the 'Future Action(s)' column relating to the risk 'Failure to manage increased service demands from changing area population demographics (longer term) and residents impacted on by deteriorating economic conditions (shorter term).<br><br>2. That the interpretation and understanding of the Corporate Risk Register be included in the future training programme for members of the Committee. | Anne Woods |
| **CNCL389.** | **ANY OTHER BUSINESS OF AN URGENT NATURE**<br><br>There were no items of urgent business. | |
| **CNCL390.** | **DATE OF NEXT MEETING**<br><br>It was noted that the next meeting was due to be held on Thursday 29 January 2015 and that the meeting would start at 7.45pm, instead of the usual start time of 7.00pm, in order to accommodate a training session for members of the Committee immediately prior to the commencement of the meeting. | Kevin Bartle/ Anne Woods/ George Bruce/ Oliver Craxton |

The meeting ended at 8.47pm.

COUNCILLOR GEORGE MEEHAN
**CHAIR**

Grant Thornton

# Certification report 2013/14 for London Borough of Haringey

**Year ended 31 March 2014**

December 2014

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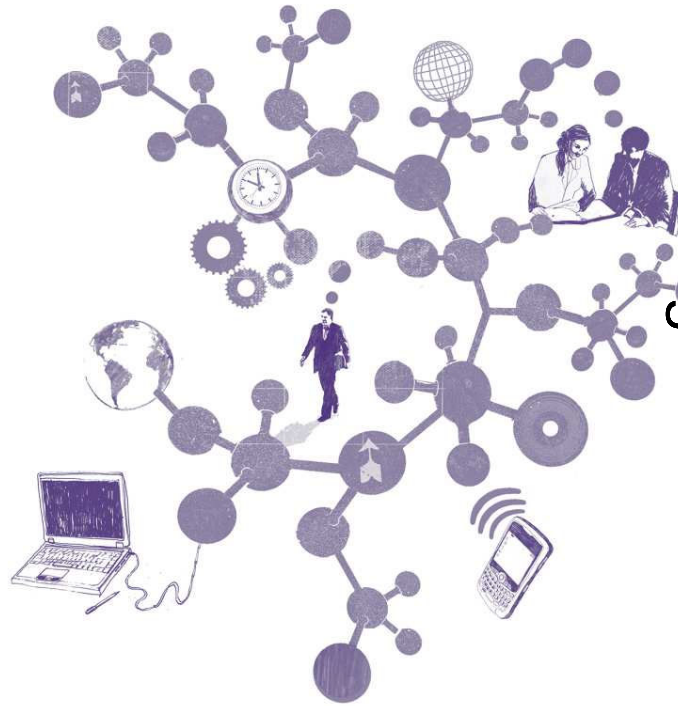

# Contents

# Section 1: Summary of findings

01. Summary of findings

# Summary of findings

## Introduction

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

We have certified 2 claims and returns for the financial year 2013/14 relating to expenditure of £284 million.

This report summarises our overall assessment of the Council's management arrangements in respect of the certification process and draws attention to significant matters in relation to individual claims.

## Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Our approach to certification work, the roles and responsibilities of the various parties involved and the scope of the work we perform were set out in our Certification Plan issued to the Council in June 2014

## Key messages

A summary of all claims and returns subject to certification is provided at Appendix A. The key messages from our certification work are summarised in the table below and set out in detail in the next section of the report.

| Aspect of certification arrangements | Key Messages | RAG rating |
|---|---|---|
| **Submission & certification** | All claims were submitted and certified by the specified deadlines. | ● (green) |
| **Accuracy of claim forms submitted to the auditor (including amendments & qualifications)** | The Housing benefits claim was qualified as in previous years. The Council continue to process a large number of benefit claims incorrectly, but continue to support the audit process in an exemplary fashion. There were a high number of errors identified in the initial testing which has led to additional testing of 680 cases. The Council undertook this additional testing, but we were required to review and re-perform this work. The value of the additional work we undertook which was not required in 2011/12(the indicative fee is based on the 2011/112 year) is £9,663<br>The amendment to the claim increased the amount of subsidy claimed by £14k. | ● (amber) |
| **Supporting working papers** | Working papers provided were of a good quality and were sufficiently detailed | ● (green) |

## Significant findings

Testing of an initial sample of 60 individual benefit cases identified several errors on the calculation of the claimants benefit including earned income, self employed income, non dependents income, child tax credits, working tax credits, childcare costs and claimant's capital. These errors subsequently impacted on the amount of benefit awarded to claimants. We also identified issues with the classification of overpayments. The number of errors remained fairly high and consistent with last year.

As a result of these findings the Council were required to undertake 17 sets of 40 plus testing (equating to an additional 680 cases) which focus on the errors identified. We were required to review and re-perform this testing. The additional testing identified similar errors. We have extrapolated the findings of all the cases tested over the populations and included these in our Qualification Letter which we agreed with the Council.

The result of the extrapolations was that the Council remained below the Local Authority Error lower threshold indicating that there is unlikely to be any impact on funding received from the Department for Work and Pensions.

The number of errors impact on the amount of additional testing that is required to certify the claim and also potentially impact on the subsidy due to the Council. Therefore, we have raised  a recommendation for improvement within the action plan at Appendix B.

## Certification fees

The indicative certification fee set by the Audit Commission for 2013/14 for the Council is based on final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims were reduced by 12 per cent, to reflect the removal of council tax benefit from the scheme. This is set out in more detail in Appendix C.
We are proposing the following variations to the fee based an increase to the Housing and Council tax Benefit Subsidy return due to additional work having to be performed which was not required in 2011/12. The value of the additional work is £9,663

The revised fee for our certification work is £47,364. This compares to the 2011/12 fee of £55,830 for certification of the same returns

## The way forward

We set out recommendations to address the key messages above and other findings arising from our certification work at Appendix B.
Implementation of the agreed recommendations will assist the Council in compiling accurate and timely claims for certification. This will reduce the risk of penalties for late submission, potential repayment of grant and additional fees.

## Acknowledgements

We would like to take this opportunity to thank the Council officers for their assistance and co-operation during the course of the certification process.

**Grant Thornton UK LLP**
**December 2014**

# Appendices

# Appendix A: Details of claims and returns certified for 2013/14

| Claim or return | Value | Amended? | Amendment (£) | Qualified? | Comments |
|---|---|---|---|---|---|
| Housing benefit subsidy claim | £270,895,542 | Yes | £13,573 | Yes | Errors associated with calculating claimants income affecting benefits paid to claimants. |
| Capital receipts return | £13,335,555 | No | Not Applicable | No | Not Applicable |

# Appendix B: Action plan

**Priority**
**High** - Significant effect on arrangements
**Medium** – Some effect on arrangements
**Low** - Best practice

| Rec No. | Recommendation | Priority | Management response | Implementation date & responsibility |
|---|---|---|---|---|
| 1 | Identify the reasons for the high number of errors identified within housing benefits cases. Implement a strategy to reduce the errors and to mitigate the risk that subsidy will be reclaimed by the Department of Work and Pensions. | High | The Authority has already begun implementing a strategy for identifying and addressing errors made within the Housing Benefit process and revise the Quality and Control checking to include:-<br>•Targeting of checks of known high risk areas e.g. Earned Income, Tax Credits, Child Care Costs<br>•An increased focus on financial errors specific to minimising subsidy loss<br>•Looking at the comparative effectiveness of having a dedicated quality team against Control & Compliance officers sitting amongst the processing teams and addressing any skills gaps where these are identified<br>•Assessing whether the current 4% check enables sufficient coverage of our caseload to identify potential errors<br>•Improving the use of PMQA (RB Solutions system) to integrate our quality and staff performance monitoring so that errors can be analysed by type, staff and frequency and linking it to our training/development and capability processes<br>•Benchmarking of our practices with a sample of similar Authorities to identify best practice wherever possible | Assistant Director – Customer Services |

# Appendix C: Fees

| Claim or return | 2012/13 fee (£) | 2013/14 indicative fee (£) | 2013/14 actual fee (£) | Variance year on year (£) | Explanation for significant variances |
|---|---|---|---|---|---|
| Housing benefits subsidy claim | 52,160 | 34,614 | 44,247 | (7,913) | Reduction due to Council Tax benefit removed from the claim as a result of the implementation of the Council Tax Reduction Scheme. |
| Capital receipts return | 3,670 | 3,117 | 3,117 | (553) | |
| **Total** | 55,830 | 37,731 | 47,364 | (8,466) | |



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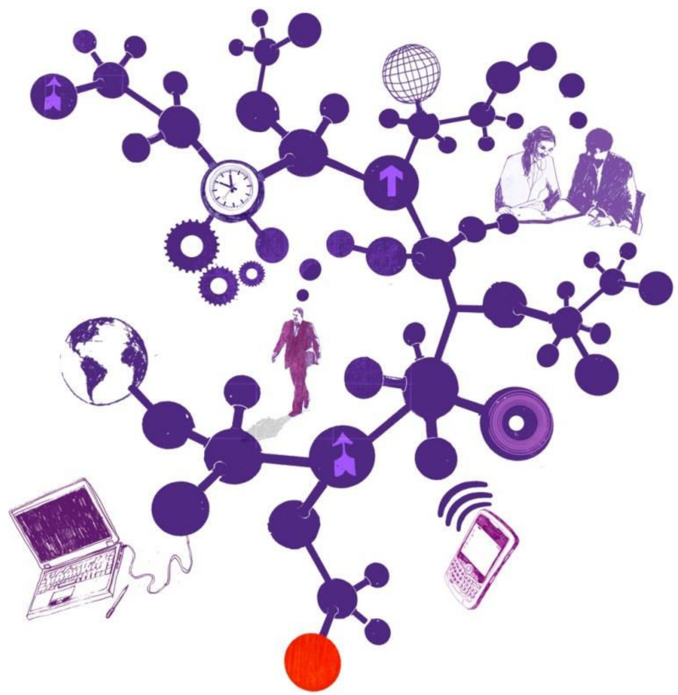
# Corporate Committee Update

**Year ended 31 March 2015**

January 2015



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

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# Contents



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# Introduction

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

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

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

- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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

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# Progress at 14 January 2015

| Work | Comments |
|---|---|
| **2013/14 Audit Certificate** | We gave an unqualified opinion on the Council's financial Statements on 29 September 2014 in advance of the 30 September deadline. We were not able to certify the 2013/14 audit as complete due to two objections raised on the accounts by local authority electors.<br>We are awaiting the Council's response to the objection relating to bailiff enforcement of parking/traffic debts. This has been delayed as the original objector was not an elector from London Borough of Haringey and a subsequent objection has only recently been received.<br>The objection relating to the court costs requested by the Council at the point of issuing a summons for non-payment of council tax is delayed as this issue is subject to judicial review.<br>Once these objections resolved we will be able to issue the audit certificate and close the 2013/14 audit. We will update the Committee on progress at the next meeting. |
| **Grant certification work – 2013/14 financial year** | We have completed the certification work for the Council's Grant Claims that are subject to audit. The Certification Report is a separate item on the agenda. |
| **Audit Planning - 2014/15 financial year** | We continue to work with the Council to prepare for the 2014/15 audit and build on the significant improvements to the accounts compilation and audit processes in the past two years.<br>Our initial planning visit for the 2014/15 audit is scheduled for February 2015. As part of this visit we will be updating our understanding of key financial systems through discussions with officers and testing controls in these areas.<br>As part of our wider audit planning we are meeting with officers to ensure our work is focused on the key risks facing the Council in respect of its financial statements audit and Value for Money conclusion. |

Page 21

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# Rising to the challenge

**Grant Thornton**

Our national report, Rising to the Challenge, the Evolution of Local Government, was published in December and is available at: http://www.grant-thornton.co.uk/en/Publications/2014/Rising-to-the-challenge---The-evolution-of-local-government/

This is the fourth in our series of annual reports on the financial health of local government. Like previous reports, it covers key indicators of financial performance, strategic financial planning, financial governance and financial control. It also includes case studies of best practice and a comparison to the NHS. This year it has been extended to use benchmarking information on savings plans and budget performance.

The overall message is a positive one. What stands out is how well local authorities have navigated the first period of austerity in the face of ever increasing funding, demographic and other challenges. Many authorities are forecasting financial resilience confidently in their medium term financial strategy. This reflects an evolution in financial management that would have been difficult to envisage in 2010. However, there remains much to be achieved if the sector is to become sustainable in the long term, and authorities should consider if their:

- medium- to long-term strategy redefines the role of the authority creatively
- operational environment will adapt, working in partnership with other authorities and local organisations
- strategy looks beyond the traditional two- to three-year resource planning horizon
- organisational culture is aligned to where the authority needs to be in the medium to long term
- senior leadership teams – both officers and members – have the necessary skills and capacity to ensure delivery against the medium-term challenges
- corporate governance arrangements ensure effective oversight and scrutiny of the organisation as it adapts to the challenges it faces.

The importance of these actions will be magnified if local government devolves further, particularly in relation to fiscal devolution. The new-found confidence of local government in responding to the medium-term challenges will be tested significantly by the second phase of austerity.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

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# 2020 Vision

**Grant Thornton**

Our national report '2020 Vision' is available at: http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

It highlights that English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

Hard copies of our report are available from your Engagement Lead or Audit Manager.

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# Pulling together the Better Care Fund

**Grant Thornton**

Our national report 'Pulling together the Better Care Fund' is available at: http://www.grant-thornton.co.uk/en/Publications/2014/Pulling-together-the-Better-Care-Fund/.

The reports asks 'Do local authorities and clinical commissioning groups (CCGs) have effective arrangements to develop joint Better Care Plans for agreement by the health and wellbeing boards (HWBs) and how ready are they for the pooled fund in April 2015?'

Our report draws on our review of the introduction of draft Better Care Fund (BCF) plans for both the February and April submissions. It is based on a sample of our findings from 40 HWB localities. It considers the partnership arrangements across a HWB planning area and is supported by discussions with the sector, across the country. The result is a snap shot of progress as at 30 June 2014, prior to the issue of revised planning guidance by NHS England and the Local Government Association on 25 July 2014.

It provides you with:
- an understanding of how your approach to introducing BCF compares to others across the country
- assistance in identifying the key issues to delivering Better Care Fund plans effectively
- insight into current best practice
- practical areas for consideration for improving arrangements in the future.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



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# Accounting for schools

## Accounting and audit issues

### Accounting for schools

The debate about the recognition of school land and buildings on local authority balance sheets (which most commentators had thought settled) has been reignited. Grant Thornton is taking a leading role in trying to resolve this unexpected development.

In March, CIPFA/LASAAC Code concluded that under IFRS 10, maintained schools (but not free schools or academies) meet the definition of entities that need to be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the CIPFA/LASAAC Code requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. The general expectation in the sector was that:

- the vast majority of voluntary aided, voluntary controlled and foundation schools would be recognised on local authority balance sheets
- a small number of school buildings that are provided at no charge by a religious body and where there was a realistic possibility that they could be taken back by their owners would be treated as assets of the religious body and so not recognised on the local authority balance sheet.

However, at the CIPFA conference in November, CIPFA clarified that it considers that most voluntary aided and voluntary controlled school buildings would **not** be recognised on the balance sheet. This view has been set out in more detail in LAAP 101. This is because the religious bodies have a legal right to take back these assets. Nor does CIPFA consider the position for foundation school building to be clear cut and local judgement would need to be applied. We are discussing issues with CIPFA in particular:

- how the treatment proposed by CIPFA complies with the Code
- the significant practical implications for the sector
- the potential for inconsistent accounting treatments depending on local judgement.

We are working with the Audit Commission, CIPFA and the other audit firms suppliers to try to seek a practical way forward as soon as possible.

Continued overleaf …..

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# Accounting for schools (continued)

**Accounting and audit issues**

We will continue to share the latest developments with officers. In the mean time we note your preparations for recognising school land and building including:

- identifying those schools where school buildings are owned by third parties (such as church dioceses) and determining under what circumstances the buildings could be taken back by the third party
- obtaining valuations for school land and buildings for each of the three balance sheet dates (1 April 2013, 31 March 2014, 31 March 2015)
- obtaining sufficient information to enable the authority to restate its revaluation reserve and capital adjustment account.

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# Earlier closure and audit of accounts

## Accounting and audit issues

DCLG is consulting on proposals to bring forward the audit deadline for 2017/18 to the end of July 2018. Although July 2018 is almost 4 years away, both local authorities and their auditors will have to make real changes in how they work to ensure they are 'match-fit' to achieve this deadline. This will require leadership from members and senior management. Local government accountants and their auditors should start working on this now.

Top tips for local authorities:

- make preparation of the draft accounts and your audit a priority, investing appropriate resources to make it happen
- make the year end as close to 'normal' as possible by carrying out key steps each and every month
- discuss potential issues openly with auditors as they arise throughout the year
- agree key milestones, deadlines and response times with your auditor
- agree exactly what working papers are required.

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# Local government financial reporting remains strong

**Local government guidance**

The Audit Commission published its report, Auditing the Accounts 2013/14: Local government bodies, on 11th December.

Financial reporting was consistently strong for most types of principal local authority in 2013/14 when compared to the previous financial year. This year the Commission has congratulated 16 bodies where auditors were able to issue an unqualified opinion and a VFM conclusion on the 2013/14 accounts by 31 July 2014, and the body published audited accounts promptly. Although, as only 21 principal bodies have managed to publish their audited accounts by 31 July since 2008/09, a move to bring the accounts publication date forward is likely to cause significant challenges for the majority of public bodies.

The Commission reports that auditors were able to issue the audit opinion by 30 September 2014 at 99 per cent of councils, 90 per cent of fire and rescue authorities, 97 per cent of police bodies, all other local government bodies and 99 per cent of both parish councils and internal drainage boards. This is consistent with last year for most groups, but an improvement for councils and small bodies compared to 2012/13.

Eight principal authorities were listed where the auditor was unable to issue an opinion by the 30th September deadline.



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Haringey Council

| | | | |
|---|---|---|---|
| **Report for:** | Corporate Committee<br><br>29 January 2015 | **Item number** | |

| | |
|---|---|
| **Title:** | Internal Audit Progress Report – 2014/15 Quarter 3 |

| | |
|---|---|
| **Report authorised by :** | Assistant Director of Corporate Governance |

| | |
|---|---|
| **Lead Officer:** | Anne Woods, Head of Audit and Risk Management<br>Tel: 020 8489 5973<br>Email: anne.woods@haringey.gov.uk |

| | |
|---|---|
| **Ward(s) affected: ALL** | **Report for: Information** |

### 1. Describe the issue under consideration

1.1 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.

1.2 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 2014/15 annual audit plan, together with the responsive and pro-active fraud investigation work. Where further action is required or recommended, this is highlighted in the report and appendices and appropriate recommendations for the Corporate Committee.

### 2. Cabinet Member Introduction

2.1 Not applicable

### 3. Recommendations

3.1 The Corporate Committee is recommended to note the audit coverage and counter-fraud work completed; and the actions taken during the quarter to ensure audit recommendations are implemented and address the outstanding recommendations during the third quarter, 2014/15.

### 4. Other options considered

Haringey Council

4.1 Not applicable.

## 5. Background information

5.1 The internal audit and counter-fraud teams make a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council. This report looks at the work undertaken in the quarter ending 31 December 2014 and focuses on:

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

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

## 6. Comments of the Chief Financial Officer and Financial Implications

6.1 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 from 1 April 2012, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget.

6.2 The financial benefits to the Council of the work completed during 2014/15 as part of the ongoing tenancy fraud project, including the amnesty project, will be realised as properties are recovered and returned to the Council's portfolio. The Audit Commission estimate that the costs of fraudulent tenancies and unauthorised sub-letting equate to £18k per annum per property, mainly relating to additional costs for temporary accommodation.

6.3 Preventing fraudulent Right to Buy applications ensures that properties are retained within the social housing stock and discounts of up to £100k per property are not allocated to those who are not entitled to receive them.

## 7. Comments of the Assistant Director, Corporate Governance and Legal Implications

7.1 The Assistant Director, Corporate Governance has been consulted in the preparation of this report, and has no comments.

## 8. Equalities and Community Cohesion Comments

8.1 This report deals with how risks to service delivery are managed across all areas of the Council, which have an impact on various parts of the community. The report also contains details of how fraud investigation work is undertaken and pro-active fraud projects are managed. Improvements in managing risks and controls and reducing and preventing the opportunity for

Haringey Council

fraud will therefore improve services the Council provides to all sections of the community.

### 9. Head of Procurement Comments

9.1 Not applicable.

### 10. Policy Implications

10.1 There are no direct implications for the Council's existing policies, priorities and strategies. However, improving controls and reducing the opportunity for fraud to take place in the first place, and taking appropriate pro-active action to detect and investigate identified fraud will assist the Council to use its available resources more effectively.

### 11. Use of Appendices

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

### 12. Performance Management Information

12.1 Although there are no national or Best Value Performance Indicators, key 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 | 70% | 58% | 95% |
| 2 | Priority 1 recommendations implemented at follow up | 100% | 100% | 95% |
| 3 | Benefit fraud cases completed and accepted for prosecution | 10 | 24 | 20 |
| 4 | Tenancy fraud – properties recovered | 15 (plus 2 via RTB) | 27 (plus 2 via RTB) | 50 |
| 5 | Right to Buy – fraudulent applications prevented | 15 | 82 | 10 |

### 13. Internal Audit work – Mazars

13.1 The activity of Mazars for the third quarter of 2014/15 to date is detailed at Appendix A. Mazars planned to deliver 212 days of the 2014/15 annual audit plan (850 days) during the quarter and actually delivered 147 days audit work during the quarter. Ongoing monthly contract monitoring reviews ensure that performance levels are kept under review.

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

Haringey Council

Appendix A provides a list of all final reports which have been issued during the quarter.

13.3 Appendix A also provides detailed summaries of all recommendations which were previously recorded as outstanding at the time of the follow up audit work. Members have been monitoring the progress and implementation of these to ensure that managers were taking appropriate action to address all outstanding recommendations. Internal Audit will continue to monitor implementation of recommendations to ensure appropriate actions are taken to mitigate identified risks.

13.4 A summary of follow up audits for 2013/14 work which have been undertaken to date is also included at Appendix A. We have followed up on 41 recommendations and found that 33 have been implemented; two are no longer applicable; five are in progress; and one has not been implemented. No Priority 1 recommendations remain outstanding. Overall, a compliance rate of 97% has been achieved for the quarter. We will continue to monitor all outstanding recommendations to ensure compliance.

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

**14.1 Internal employee investigations**

In accordance with the Council's Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees. Appendix B details the individual cases that were completed by the team in the third quarter 2014/15 relating to Council employees. The listing at Appendix B also includes any referrals made using the Council's whistle blowing policy which were investigated by the team. During the third quarter, one staff-related whistle blowing referral was made.

Within the third quarter, five new cases relating to permanent and temporary employees were referred to the Fraud Team. Four cases were completed during the quarter involving Council employees. 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.

**14.2 Tenancy Fraud – council properties**

The Fraud Team works with Homes for Haringey to target and investigate housing and tenancy fraud. The Audit Commission estimate that each fraudulent tenancy costs councils an estimated £18k in temporary accommodation and other associated costs.

As at 31 December, 101 new referrals of suspected tenancy fraud have been received by the team. The secondment agreements for both of the two temporary staff have been extended to May 2015 to assist with the recovery of tenancies from these referrals and also to assist with investigations into

Haringey Council

potentially fraudulent Right to Buy applications. The secondments are being funded by the DCLG grant.

Four properties were recovered in the third quarter through fraud investigations, six properties were recovered through the tenancy amnesty and a further five properties were refused succession. Table 2 below summarises the source of suspected fraud referrals and the outcomes achieved/cases closed in the third quarter:

**Table 2**

| | | |
|---|---|---|
| Carried forward 2013/14 | | **67** |
| Referrals received from: | | |
| Tenancy Management Officer | **63** | |
| Fraudcall | **23** | |
| Tenancy amnesty | **1** | |
| Public | **5** | |
| Joint investigation with HB Fraud | **1** | |
| Other LA | **3** | |
| Member | **2** | |
| Haringey Staff | **3** | |
| | | **101** |
| Sub-Total | | **168** |
| **Outcomes 2014/15** | | |
| Properties Recovered | **11** | |
| Succession of Tenancy refused | **10** | |
| Tenancy amnesty | **6** | |
| Total recovered/refused | **27** | |
| No Fraud identified | **88** | **115** |
| Ongoing Investigations c/f | | **53** |

**Haringey Properties –** 53 ongoing investigations
11 of the 53 cases (20%) are showing the status “Unauthorised Accounts” on the Housing database. This represents those cases that have been investigated, tenancy fraud has been proven, with the consequence that the tenancy is terminated against the named tenant, to avoid rent payments being made and an implied tenancy being created; and are now pending either the:
(i) Serving, or expiry of Notice to Quit,
(ii) Court Hearing date,
(iii) Eviction date, or
(iv) Offer of smaller accommodation, in instances where a succession cannot be awarded to a property too large for the intended successor’s needs.

These cases will be added to the ‘properties recovered’ numbers when keys are returned.

Haringey Council

In addition to the above cases where 27 properties have been recovered, one investigation was undertaken on a housing application which was referred to the Fraud Team. The application was proved to be fraudulent, therefore preventing a Council tenancy from being offered.

**14.3 Tenancy Fraud - Registered Provider properties**

The section also works closely with the Council's key Registered Providers to target and investigate housing and tenancy fraud with their staff. As at 31 December 2014, 15 new referrals of suspected tenancy fraud have been received. Table 3 below summarises the source of suspected fraud referrals and the outcomes achieved/cases closed in the third quarter:

**Table 3**

| | | |
|---|---|---|
| Carried forward 2013/14 | | **51** |
| Referrals received | | **15** |
| Total | | **66** |
| **Outcomes 2014/15** | | |
| Properties Recovered | **3** | |
| Succession of Tenancy refused | **0** | |
| Total recovered/refused | **3** | |
| No Fraud identified | **2** | **5** |
| Ongoing Investigations c/f | | **61** |

**14.4 Right-to-buy (RTB) applications**

To date, 282 applications have been referred to the Fraud Team in 2014/15. The team reviews every RTB application to ensure that any property where potential benefit or succession fraud is indicated can be investigated further.

In 2014/15 to date, 102 applications have been cleared for progression; 82 applications have been withdrawn either following the applicants' interview with the Fraud Team, further investigations and/or the requirement to complete money laundering processes; and 121 applications are currently under, or awaiting investigation.

We are working with housing services, banks and financial institutions to identify potential fraudulent applications and work will continue during 2014/15.

**14.5 Housing Benefit Fraud Investigation**

During the third quarter, the Fraud team completed investigations on ten benefit fraud cases and submitted these for prosecution at crown court via Legal Services and the DWP. There are also five cases with outstanding warrants which the team chase up on a regular basis.

Seven cases were successfully prosecuted in court. The total overpayment value of the cases concluded is £382k, and £20k has been recovered, with most

Haringey Council

recovery processes instigated via ongoing benefit entitlement. The team has an annual target of 20 prosecution cases for 2014/15, and this target has been achieved.

**14.6 Tenancy fraud – key amnesty**

The tenancy fraud amnesty ran from 14 October to 20 December 2014. News and information articles were published on the Council and HfH websites; posters were displayed in Customer Service Centres, Libraries, housing offices, individual housing blocks, bus shelters and on the backs of local buses. Training for customer service centre and Homes for Haringey staff was provided to ensure that records captured any keys returned.

The amnesty resulted in six properties being recovered, all of which are in the process of being re-let.

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# Internal Audit
# Quarter 3 Internal Audit Report
# 2014/15
# London Borough of Haringey



Mazars Public Sector Internal Audit Ltd.

December 2014

**Contents**

# Executive Summary

## Introduction

This is our third quarter report to the Corporate Committee for the 2014/15 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 service areas 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 2014/15 – Final Reports issued:

**2013/14 Internal Audits finalised in the quarter:**

- Children remanded into Custody and Care.

**2014/15 Internal Audits finalised in the quarter:**

- Highways Income;
- Private Sector Leasing;
- M3PP Environmental Enforcement Application;
- eBenefits Application – Follow-up;
- ePay Application;
- Data Quality; and

- BSF ICT Managed Services.

## Delivery of 2013/14 Internal Audit Plan

The 2013/14 Internal Audit Plan has been fully delivered.

## Delivery of 2014/15 Internal Audit Plan

As part of the delivery of the 2014/15 Internal Audit Plan, we have also issued draft reports for the following audits:

- Debt Collection; and
- Safeguarding Adults Prevention Strategy.

## Follow Up of Prior Years' Recommendations

The results of our follow-up work are as follows:

**2012/13**

Three recommendations remain outstanding; work is ongoing to address these.

**2013/14**

To date we have followed up 41 recommendations raised in 2013/14 and the results of our work are as follows:

- Implemented – 33 (80.5 %);
- Partly Implemented – 5 (12.0 %);
- Not Implemented – 1 (2.5 %); and
- Not Applicable – 2 (5.0 %).

## Audit Progress and Detailed Summaries

The following table sets out the audits finalised in Quarter 3 of 2014/15 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 |
| **2013/14** | | | | | | | |
| Children Remanded into Custody & Care | Jan'14 | 15.12.14 | Limited | N/A | 2 | 5 | 0 |
| **2014/15** | | | | | | | |
| Highways Income | June'14 | 20.10.14 | Limited | N/A | 5 | 1 | 1 |
| Private Sector Leasing | Aug'14 | 10.10.14 | Substantial | N/A | 0 | 0 | 3 |
| M3PP Environmental Enforcement Application | Sept'14 | 12.11.14 | Substantial | N/A | 0 | 7 | 6 |
| eBenefits Application – Follow-up | Oct'14 | 08.12.14 | N/A | N/A | 0 | 2 | 1 |
| ePay Application | Oct'14 | 19.12.14 | Substantial | N/A | 0 | 1 | 3 |
| Data Quality and Performance Indicators | Oct'14 | 22.12.14 | Substantial | ⇔ | 0 | 2 | 0 |
| BSF ICT Managed Services | Nov'14 | 19.12.14 | Substantial | N/A | 0 | 0 | 1 |

As part of the 2014/15 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 | Report Date | Assurance Level | Number of Recommendations (Priority) | | |
|---|---|---|---|---|---|---|
| | | | | 1 | 2 | 3 |
| Bruce Grove Primary School | Jun'14 | 01/10/14 | Limited | 5 | 10 | 1 |
| St Paul's Catholic School | Jun'14 | 27/10/14 | Limited | 1 | 12 | 2 |
| St Martin of Porres RC Primary School | Oct'14 | 09/12/14 | Limited | 1 | 15 | 1 |

As part of the 2014/15 Internal Audit Plan we have also visited the following schools, completed a follow-up of the recommendations raised in 2013/14 and during Quarter 3 issued a formal follow-up report. The results of our follow-up work are summarised in the table below.

| School | Assurance Level | Recommendations | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Category | | | | Implemented | | | | Partly Impl. | Not Impl. | N/A | Priority 1 Recs. Outstanding |
| | | 1 | 2 | 3 | Total | 1 | 2 | 3 | Total | | | | |
| Northumberland Park Community School | Limited | 6 | 6 | 1 | 13 | 4 | 5 | 1 | 10 | 3 | 0 | 0 | 2 |
| Highgate Wood Secondary School | Limited | 7 | 12 | 1 | 20 | 4 | 5 | 1 | 10 | 6 | 4 | 0 | 3 |
| Hornsey School for Girls | Substantial | 1 | 5 | 1 | 7 | 1 | 0 | 0 | 1 | 5 | 0 | 1 | 0 |
| Alexandra Primary School | Substantial | 0 | 7 | 1 | 8 | 0 | 4 | 1 | 5 | 2 | 1 | 0 | 0 |
| Bounds Green Primary School | Substantial | 0 | 1 | 5 | 6 | 0 | 1 | 5 | 6 | 0 | 0 | 0 | 0 |
| Coldfall Primary School | Substantial | 0 | 8 | 1 | 9 | 0 | 5 | 1 | 6 | 2 | 1 | 0 | 0 |
| Earlham Primary School | Nil | 13 | 17 | 0 | 30 | 3 | 4 | 0 | 7 | 9 | 11 | 3 | 9 |

| School | Assurance Level | Recommendations | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Category | | | | Implemented | | | | Partly Impl. | Not Impl. | N/A | Priority 1 Recs. Outstanding |
| | | 1 | 2 | 3 | Total | 1 | 2 | 3 | Total | | | | |
| Ferry Lane Primary School | Limited | 5 | 11 | 0 | 16 | 3 | 5 | 0 | 8 | 3 | 4 | 1 | 1 |
| Lancasterian Primary School | Substantial | 2 | 3 | 3 | 8 | 1 | 2 | 3 | 6 | 2 | 0 | 0 | 1 |
| Rhodes Avenue Primary School | Substantial | 0 | 6 | 4 | 10 | 0 | 5 | 4 | 9 | 1 | 0 | 0 | 0 |
| St James CE Primary School | Substantial | 2 | 10 | 1 | 13 | 2 | 4 | 1 | 7 | 4 | 2 | 0 | 0 |
| Stamford Hill Primary School | Limited | 4 | 10 | 4 | 18 | 3 | 5 | 4 | 12 | 5 | 1 | 0 | 3 |
| Stroud Green Primary School | Limited | 5 | 14 | 2 | 21 | 2 | 4 | 2 | 8 | 7 | 6 | 0 | 3 |
| Tiverton Primary School | Limited | 3 | 16 | 0 | 19 | 0 | 7 | 0 | 7 | 11 | 0 | 1 | 3 |
| Welbourne Primary School | Substantial | 1 | 10 | 1 | 12 | 1 | 7 | 1 | 9 | 3 | 0 | 0 | 0 |
| Seven Sisters Primary School * | Limited | 9 | 1 | 0 | 10 | 4 | 0 | 0 | 4 | 4 | 0 | 2 | 3 |

* Follow-up of outstanding 2012/13 recommendations

# DETAILED SUMMARIES:

| Audit area | Scope | Status/key findings | Assurance |
|---|---|---|---|
| **ENVIRONMENTAL SERVICES & COMMUNITY SAFETY** | | | |
| **Highways Income 2014/15** | Audit work was undertaken to cover the following areas:<br>• Compliance with Statutory and Local Requirements (including the Council's financial procedure rules);<br>• Income Collection and Receipting;<br>• Banking and Reconciliation;<br>• Allocation Processes; and<br>• Monitoring and Reporting. | Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The key findings are as follows:<br>• Licences are applied for using specific licence request application forms available from Harinet, and fees are payable in advance. Where licences are due to be renewed, a reminder letter is sent requesting further payment. We sampled three renewals and found that in all cases the letter had been sent prior to the licence expiry date, although in one case this was sent only two days prior to expiry.<br>• Deposits are fully refundable in all cases after works have been completed, providing the site has not been damaged and is in the same condition as at the start of the works.<br>• We sampled 15 licences and in one instance, the inspection fee had not been collected as part of the total licence fee for a Scaffold License (No. 3038/SCA).<br>• The deposit taken for granting a licence is calculated manually using a simple formula for all licence types except for crane licenses where a flat rate of £200 is required to be paid.<br>• Deposits received for mobile crane licences are not banked but are held in a safe and cheques are then discarded when the licences have expired.<br>• Utility companies are invoiced for street works undertaken, with the invoice comprising a number of smaller invoice amounts in order to avoid higher costs related to issuing individual invoices for each of the works completed.<br>• Utility companies agree to the works charges prior to the invoice being raised so that payment is not delayed due to disputes relating to individual works. For a sample of four utility companies, a total of 22 invoices totalling £53,393.30 | **Limited** |

| Audit area | Scope | Status/key findings | Assurance |
|---|---|---|---|
| | | were not paid within 30 days, and had still not been paid at the time of the audit. Discussions with the System Co-ordinator established that responsibility for recovery action lies with the Council's debt recovery team. As this area is covered as part of other audits, we have not followed up on the recovery actions and no recommendations have been raised in this area.<br>• Although banking of income collected is required to be undertaken on a weekly basis in line with procedures, in the 14 week period between the end of February and end of May 2014, only six bankings each for licenses and vehicle crossovers were prepared.<br>• Income is collected and banked by BDI - Securities, an external security company. Receipts are required to be retained. For the 12 bankings in the period identified above, receipts could not be located in four instances.<br>• Examination of banking records for a 14 week period from March to May 2004 identified weaknesses, including incomplete paying-in slips and receipts from BDI Securities not being retained.<br>• Reconciliations between amounts banked and amounts posted on SAP as banked have not been completed since October 2013 for licence income, and have not been completed at all for vehicle crossovers. In addition, the reconciliations that had been completed were not subject to review by a senior officer.<br>• The year-end reconciliation between the Highways Access database and SAP has not been completed for the 2013/14 financial year. Furthermore, the 2012/13 reconciliation had not been fully completed, and there was no recorded evidence of review and sign off by a senior officer.<br>• Monthly budget monitoring reports are produced by a lead revenue officer and presented at monthly management meetings where Highways Income is discussed. The budget | |

| Audit area | Scope | Status/key findings | Assurance |
|---|---|---|---|
| | | monitoring reports compare actual income collected to budget.<br>• Income collected is allocated to specific income codes on SAP. There are two WBS income codes for licence income received, depending on whether the work is carried out in the East or the West of the borough. For deposit income, a unique WBS code was requested from Central Finance and all such income was coded and reflected on SAP. For vehicle crossover income, this is allocated to a separate profit centre.<br>• We sampled 13 banking transactions and identified one instance where the total amount banked of £20,239.81 in April 2014, which was recorded on Cash Return number 409043, was found to still be in the holding account on SAP and had yet to be allocated to the relevant cost centres.<br>• An annual uplift of 3% is usually applied to licence fees and costs. However, this was not applied in 2014/15. We were informed that, as this decision was made and agreed corporately, the service would not have minutes of that decision making. We would however advise management to continue liaising with Corporate Finance to obtain a copy of the minutes, as evidence of the decision.<br>As a result of our audit work we have raised five Priority 1 recommendations, one Priority 2 recommendation and one Priority 1 recommendation, which should assist in improving the control environment.<br>The Priority 1 recommendations are as follows:<br>• All income collected on behalf of the Council (including deposits) should be appropriately recorded, banked intact and in a timely manner, and where appropriate, refunded in accordance with the Council's normal refund process.<br>• Reconciliations between amounts banked and amounts posted onto SAP as banked should be undertaken on at least a monthly basis for both licenses issued as well as vehicle crossovers. Furthermore, all income and banking reconciliations completed | |

| Audit area | Scope | Status/key findings | Assurance |
|---|---|---|---|
| | | by the Service should be checked and signed off as complete and accurate by a senior member of staff.<br>• Staff involved in the banking process should be formally reminded of the requirement to maintain detailed and complete records of income banked. This should include but not be limited to the following:<br>➢ Paying-in slips completed in full to show the individual amounts being banked as well as the total;<br>➢ Paying-in slips completed and retained for all bankings;<br>➢ Retention of receipts received from BDI for the collection of income to be banked; and<br>➢ Cash return records being updated fully to show the corresponding bag number of the banking transaction these relate to.<br>• Management should formally remind all staff involved in the collection and banking of income of the need to bank all income received in a timely manner, in accordance with local procedures. It is also advised that controls are tightened to ensure banking is prepared on a weekly basis. In addition to this, the safe insurance limit should be identified and made known to staff, and a safe income record should be created so that the cumulative amounts stored are known to help identify when banking is required to be undertaken.<br>• The year-end reconciliation of the Highways Access database and SAP for the financial year should be completed as a matter of urgency. Thereafter, the reconciliation should be completed in full on an annual basis as soon as possible after the financial year end. The completed reconciliation should be signed by the preparer and independently reviewed and signed off by a senior officer to evidence checking of accuracy and completeness. Evidence of sign off should be recorded. All reconciliations should also be supported by appropriate documentation and any discrepancies should be explained, investigated, and cleared, with all details noted on the face of the reconciliation.<br>The Priority 2 recommendation is as follows: | |

| Audit area | Scope | Status/key findings | Assurance |
|---|---|---|---|
| | | • Records of income banked should be reviewed by a second officer to ensure that amounts are allocated correctly onto SAP in a complete and timely manner. This review should be recorded as completed on the Cash Return records once undertaken. Furthermore, the amount banked in April 2014 of £20,239.81 should be reallocated from the holding account on SAP to the relevant cost centres as a matter of urgency.<br>The Priority 3 recommendation is as follows:<br>• The *Highway Licensing - Fees and Requirements* summary document on the Council's website should be updated to reflect the 2014/15 charges. Furthermore, the document should be updated in a timely manner annually to reflect the 3% increase applied to licence charges each year. | |
| **CHILDREN'S SERVICE** | | | |
| **Children Remanded imnto Custody and Care**<br>**2013/14** | Audit work was undertaken to cover the following areas:<br>• Strategy and guidance;<br>• Services Provided to Children Remanded in Custody;<br>• Budgetary control;<br>• Management Reporting and Performance Monitoring (Including Monitoring of Outcomes); and<br>• Benchmarking. | Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The key findings are as follows:<br>• Circular 2012/16 issued in November 2012 by the Ministry of Justice represents a major change in services offered to children remanded into custody.<br>• The Children and Young People's Service (CYPS) have policies and guidance notes for looked after children (LAC) that are accessible through the Council's website. However, it was established that procedures are not reviewed and updated periodically to reflect any changes to legislative requirements. The procedures were last reviewed in 2008.<br>• A Service Level Agreement (SLA) between Haringey Youth Court and the Youth Offending Service (YOS) to identify children who are likely to be remanded is in place. The agreement specifies that the agreement is to be reviewed annually, but there is no evidence that it has been reviewed since its inception. We were informed that the agreement is still active.<br>• Quarterly YOS Partnership Board meetings are held with external agencies to discuss performance monitoring. | **Limited** |

| Audit area | Scope | Status/key findings | Assurance |
|---|---|---|---|
| | | • Monthly Risk Management Panel meetings are held to discuss cases and identify actions, as required.<br>• The Data Analyst for the YOS has been provided with new mapping software to allow more targeted analysis for the future.<br>• We sampled 10 cases and identified three cases documentary records for the initial sentence/remand plan could not be found on Framework-I; We sampled 10 placements and found that in seven cases a healthcare assessment was not applicable, in two cases and assessment was not conducted and in one case, although an opt-out form was completed, this could not be located on Framework-i.<br>• We sampled 10 young persons remanded in custody and established that in six cases, a Pathway Plan was not applicable, in two cases a plan was created, in one case a plan was created when the child was 16 years and five months and in one case a plan was not created.<br>• The practice in Haringey of retaining a qualified social worker for a young person in all cases rather than a Personal Advisor up until they are 18 has not been formally defined within Haringey's local procedures.<br>• The YOS and Community Integrated Care (CIC) hold a weekly YDA meeting during which all cases are reviewed in order to identify whether services can be provided in order to enable bail to be granted with a view to reducing the number of demands.<br>• The YOS Bail/remand worker attends the Children Service Resource Panel to discuss remand cases and identify alternative actions.<br>As a result of our audit work we have raised two Priority 1 recommendations and five Priority 2 recommendations.<br>The Priority 1 recommendations are as follows:<br>• A process should be developed and implemented for ensuring that a fully documented initial sentence/remand plan is held in | |

| Audit area | Scope | Status/key findings | Assurance |
|---|---|---|---|
| | | all applicable cases. This process may include a regular random check by an independent officer of records held on Framework-I to help identify instances of non-compliance. Where non-compliance is identified, appropriate corrective actions should be taken by management.<br>• A Healthcare Assessment should be undertaken for every looked after child. Where the young person is of an appropriate age to opt out of medical services, a waiver form should be obtained and kept on record.<br>The Priority 2 recommendations are as follows:<br>• The YOS procedure notes should be periodically reviewed and updated to reflect changes to statutory and/or local requirements. Delegated responsibility should also be assigned for review and update of local policies and procedures. A formal review process should be introduced for the review and updating of all policies and procedures. Version control should also be introduced.<br>• The SLA for the provision of identifying children remanded in custody should be reviewed and updated annually as stipulated in the agreement.<br>• A Pathway Plan should be set up for children leaving care, where applicable, in line with the relevant timeframe. The Pathway Plan should be in place within 3 months of the individuals becoming eligible and, wherever possible, a Pathway Plan will be in place by the young person's 16th birthday'. Where management policy dictates otherwise, local procedures should be updated to reflect local requirements and should be communicated to staff.<br>• Haringey's local procedures should be amended to reflect the agreed current practice of retaining a qualified social worker in all cases rather than a PA up until the young persons are 18. The updated procedures should be communicated to all relevant staff. Furthermore, the procedures should state whether personal advisors are assigned to children and at what | |

| Audit area | Scope | Status/key findings | Assurance |
|---|---|---|---|
| | | stage this should be.<br>• The Council should compare its services against other statistical neighbours to identify areas of good practices and areas where improvement is needed. Results should be analysed and an action plan developed, where necessary, to monitor progress and improvements. | |

# Detailed Progress Report – Outstanding Recommendations 2012/13

| Ref | Recommendation | Priority | Original Implementation Deadline | Progress/Status |
|---|---|---|---|---|
| | | **KEY FINANCIAL SYSTEMS** | | |
| **Accounting & General Ledger** | | | | |
| **1** | Procedure notes should be reviewed and up-dated on a regularly basis and version control should be introduced to evidence the review.<br>Upon review of the procedures, specifically the SAP Procedure Notes, these should be updated to reflect the requirement for approval of journals over £50,000. | 2 | December 2013 | ***Internal Audit findings April 2014***<br>There are 23 policies, as well as Haringey Core Systems Team Procedures on the intranet. The date of creation or last review of the procedures ranged from 26 November 2002 through to 24 November 2004, which indicates that procedures are not all subject to periodic review and update, where necessary.<br>***Management Response August 2014:***<br>Agreed – these will be reviewed over the course of the ONESAP implementation phase to reflect any changes in business processes arising from that project.<br>*Responsible Officer: Financial Systems Team Manager*<br>*Deadline: January 2015* |
| **Strategic Financial Management & Budgetary Control** | | | | |
| **2** | Budget guidance for the setting and monitoring the 2015/16 budget should be developed, and once produced, published on the intranet and circulated to all managers.<br>The budget guidance produced should include the following:<br>• The requirement that individual budgets are agreed by the relevant manager;<br>• Guidance as to the level of materiality of budget variances to be investigated; and | 2 | March 2013 | ***Internal Audit findings April 2014***<br>While budget preparation guidance has been produced and is available on the intranet, examination established that it relates to the 2011/12 budget.<br>There was no guidance produced for setting and monitoring the 2013/14 budget; hence the inclusion of guidance on recording comments within SAP and materiality of budget variances, as previously recommended, has not been addressed.<br>***Management Response April 2014:***<br>Revised budget management arrangements are being reviewed and, where necessary, revised as part of the ONESAP project including |

| Ref | Recommendation | Priority | Original Implementation Deadline | Progress/Status |
|---|---|---|---|---|
| | • Guidance as to the requirement to record meaningful budget comments within SAP. | | | for the setting and monitoring of budgets.<br>*Responsible Officer: Head of Finance BAS*<br>*Deadline: November 2014* |
| **Payroll** | | | | |
| **3** | Policies and procedures should be reviewed periodically to reflect changes in processes and local policy, as well as, any changes in current legislation.<br>The date of the last review should be recorded on all documents, even where changes are made. | 2 | Ongoing | ***Internal Audit findings May 2014:***<br>Procedures are still not reviewed and updated.<br>***Management Response May 2014:***<br>Agreed. The complete HR process is currently under review and one of the outcomes will include having up to date procedural guides.<br>*Responsible Officer: Pay Control Manager*<br>*Deadline: March 2015* |

# Follow Up Table – 2013/14 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** | | | | | | | | | | | | | | |
| Accounts Receivable | Substantial | 0 | 1 | 1 | **2** | 0 | 1 | 1 | **2** | 0 | **0** | **0** | **0** | 0 |
| **Procurement Audits** | | | | | | | | | | | | | | |
| Temporary Accommodation | Substantial | 0 | 2 | 0 | **2** | 0 | 2 | 0 | **2** | 0 | **0** | **0** | **0** | 0 |
| Corporate Purchase Cards | Substantial | 0 | 1 | 0 | **1** | 0 | 1 | 0 | **1** | 0 | **0** | **0** | **0** | 0 |
| **IT Audits** | | | | | | | | | | | | | | |
| Framework-I Application | Substantial | 0 | 1 | 3 | **4** | 0 | 1 | 3 | **4** | 0 | **0** | **0** | **0** | 0 |
| eBenefits Application | Limited | 0 | 9 | 1 | **10** | 0 | 7 | 0 | **7** | 0 | **0** | **3** | **0** | 0 |
| **Children's Service** | | | | | | | | | | | | | | |
| 14-19 Provision | Limited | 4 | 4 | 0 | **8** | 4 | 3 | 0 | **7** | 0 | **0** | **1** | **0** | 0 |
| **Adult Social Services** | | | | | | | | | | | | | | |
| Residential and Community Care Charges | Substantial | 0 | 2 | 1 | **3** | 0 | 1 | 1 | **2** | 0 | **1** | **0** | **0** | 0 |
| Pan-London (Major) Equipment Service | Substantial | 1 | 2 | 0 | **3** | 1 | 0 | 0 | **1** | 1 | **0** | **1** | **0** | 0 |
| Pan-London (Minor) Equipment Service | Substantial | 0 | 3 | 0 | **3** | 0 | 2 | 0 | **2** | 1 | **0** | **0** | **0** | 0 |
| **Customer Services** | | | | | | | | | | | | | | |
| Social Fund | Substantial | 0 | 0 | 3 | **3** | 0 | 0 | 3 | **3** | 0 | **0** | **0** | **0** | 0 |
| **Policy and Business Management** | | | | | | | | | | | | | | |
| Data Quality | Substantial | 0 | 1 | 1 | **2** | 0 | 1 | 1 | **2** | 0 | **0** | **0** | **0** | 0 |
| **Total** | | **5** | **26** | **10** | **41** | **5** | **19** | **9** | **33** | **2** | **1** | **5** | **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 2013/14

| Ref | Recommendation | Priority | Original Implementation Deadline | Progress/Status |
|---|---|---|---|---|
| **IT AUDIT** | | | | |
| **eBenefits Application** | | | | |
| 1 | Management should address the following issues identified during this audit:<br>• A formally defined procedure should be established to update and align housing benefit and council tax thresholds with the iWorld application;<br><br>• Management should request that Northgate configure the eBenefits application to reject non-alpha characters when entering a claimant's surname;<br><br>• Management should request that Northgate configure the eBenefits application to enable the ability to export and print the Unexported Claims report; and<br><br>• Management should review the licensing arrangements for the eBenefits application. | 3 | Completed<br><br>N/A<br><br>Completed<br><br>January 2014 | **Status: Partly Implemented**<br>The pre annual billing spreadsheet detailed the process of aligning eBenefit parameters with Council Tax and iWorld as part of the annual parameter changes. Application of this could not be evidenced as the system is in dormant state and no parameter changes were applied for 2014/15 financial year.<br>The call log 1812954 with Northgate noted rejection of non alpha character and ability to export unexported issues were raised. In response Northgate have rejected the request on non alpha character as only alpha and numeric character is permitted and therefore cost does not outweigh the benefit to make the change.<br>An additional call log 1864122 confirmed the function to export unexported was always there and now working as required.<br><br>It was confirmed by the Principal Supplier Manager that the current Licence agreement has expired and have requested a current agreement from vendor Northgate.<br>***Further action required***: Management should ensure the licensing agreement for the eBenefits application is current, valid and adequate for the number of users.<br>***Management Response December 2014:***<br>A new eBenefits contract has been requested by IT Supplier Management from Northgate. The contract will state that licenses are perpetual and include the number of users or sites it applies to. Awaiting feedback from Northgate.<br>*Revised Deadline: 31/3/2015* |

| Ref | Recommendation | Priority | Original Implementation Deadline | Progress/Status |
|---|---|---|---|---|
| **2** | Management should configure the eBenefits application to enforce strong logical access controls that are aligned to the Council's Access Control Policy. | 2 | Completed | **Status: Partly Implemented**<br>The call log 1812954 and the Enhancement request have been logged with vendor Northgate to improve logical security of the system. However, although the request has been accepted no date of implementation has been provided.<br>***Further action required:*** The risk remains until vendor implementation of recommendation.<br>***Management Response December 2014:***<br>The call log 1812954 and the Enhancement request have been logged with vendor Northgate to improve logical security of the system. However, although the request has been accepted no date of implementation has been provided.<br>Awaiting Northgate response.<br>*Revised Deadline: 31/3/2015* |
| **3** | Management should request that Northgate configure the audit trail for the eBenefits application to record:<br>• Changes that have been made to master held within the Application;<br>• Changes that have been made to a user's account; and<br>• Failed or unauthorised access attempts to the Application. | 2 | November 2013 | **Status: Partly Implemented**<br>The call log 1812954 and the Enhancement request have been logged with vendor Northgate to establish audit trail for the system. However, although the request has been accepted no date of implementation has been provided.<br>***Further action required:*** The risk remains until vendor implementation of recommendation.<br>***Management Response December 2014:***<br>The call log 1812954 and the Enhancement request have been logged with vendor Northgate to establish audit trail for the system. However, although the request has been accepted no date of implementation has been provided.<br>Awaiting Northgate response.<br>*Revised Deadline: 31/3/2015* |

| Ref | Recommendation | Priority | Original Implementation Deadline | Progress/Status |
|---|---|---|---|---|
| **CHILDREN'S SERVICES** | | | | |
| **14-19 Provision** | | | | |
| **4** | The RPA Team structure should be formally agreed and presented to the Project Management Group for review and approval. Evidence of this should be documented in the relevant meeting minutes.<br>*Responsibility: 14-19 Development Officer* | 2 | March 2014 | **Status: Partly Implemented**<br>***Management update October 2014:***<br>The situation is currently the same as the progress report i.e. the Raising the Participation Age (RPA) team is not fully implemented. This is due to ongoing reviews of the post16/RPA/Youth Service space. A review of this area has taken place by the Corporate Development Unit which will inform the resources for this area. It is anticipated that a decision is to be made no later than December 2014.<br>***Management update October 2014:***<br>The function of the RPA/Post 16 Team is forming part of the wider corporate consultation and over arching restructures. It is expected a new structure to address RPA issues will be in place by April 2015.<br>*Revised Deadline: April 2015* |
| **ADULT SOCIAL SERVICES** | | | | |
| **Residential and Community Care Charges** | | | | |
| **5** | Management should identify the reasons for missing the targets and an action plan should be developed to help financial assessment officers in the achievement of set objectives.<br>In addition, the reasonableness of the targets set should be considered and new ones should be set if the current targets are deemed unachievable.<br>*Responsibility: Acting Finance Manager, IMPBS Team* | 2 | 31 March 2014 | **Status: Not Implemented**<br>***Management Update October 2014:***<br>Implementation of this recommendation has been delayed. It is difficult to implement due to system limitations. The current system cannot provide accurate data to confirm how long it takes to complete financial assessments. This will be reviewed when the charging module is moved into Framework-i.<br>***Management Update December 2014:***<br>As per above. As part of the Care Act, there is a plan to move the current charging system (OCC) into FWi.<br>*Revised Deadline: November 2015(anticipated and at the earliest – but could be delayed further)*. |

| Ref | Recommendation | Priority | Original Implementation Deadline | Progress/Status |
|---|---|---|---|---|
| **Pan London (Major) Equipment Service** | | | | |
| **6** | Management should ensure that a formal Service Level Agreement is put in place, signed by both the Council and the NHS, which details the basis of the agreed recharges to be paid by the NHS. The SLA should clearly identify the type of equipment which is eligible for a recharge.<br>*Responsibility: Head of Adaptations Service* | 2 | 31 March 2014 | **Status: Partly Implemented**<br>***Management update October 2014:***<br>Copy of the SLA is still with Haringey Clinical Commissioning Grop (CCG) and there will be an indication by end of October 2014 as to when this is likely to be signed.<br>***Management Update December 2014:***<br>Still awaiting the CCG to sign the Access Agreement.<br>*Revised Deadline: 31/3/15.* |

# 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 2014**

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APPENDIX B

IN HOUSE AUDIT – IRREGULARITIES INVESTIGATED 01/03/14- 31/03/15 & B/F FROM 2013/14

| **Service area** | **Irregularity Type** | **No. of cases investigated** | **No. of cases proven at 31/12/2014** | **No. of Officers subject to Disciplinary Investigation** | **Disciplinary Outcome** | **Value (£) (if known)** |
|---|---|---|---|---|---|---|
| **Environmental Services and Community Safety** | Allegation of favouritism in recruitment and allocation of overtime<br>B/F 2013/14 | 1 | 0 | 0 | | |
| | Allegation of benefit fraud<br><br>B/F 2013/14 | 1 | 0 | 0 | | |
| | Allegation that employee does not have right to work | 1 | 1 | 1 | Dismissed | |
| | Allegation that employee involved in irregular SPD claim | 1 | 1 | 1 | Pending | |
| **Children and Young People's Services** | Allegation of Benefit Fraud<br><br>B/F 2013/14 | 1 | 1 | 1 | Pending | £2,795 |
| | Allegation of favouritism in the awarding of work & failure to comply with | 1 | 1 | 1 | Dismissed | |

IN HOUSE AUDIT – IRREGULARITIES INVESTIGATED 01/03/14- 31/03/15 & B/F FROM 2013/14

| Service area | Irregularity Type | No. of cases investigated | No. of cases proven at 31/12/2014 | No. of Officers subject to Disciplinary Investigation | Disciplinary Outcome | Value (£) (if known) |
|---|---|---|---|---|---|---|
| | School Finance Procedure Rules | | | | | |
| **Housing Services** | Allegation of irregular use of Council property | 1 | 1 | 1 | Dismissed | |
| | Allegation of making irregular declarations in third party homeless application | 1 | 0 | 0 | | |
| | Allegation of mismanagement and theft of monies | 1 | 0 | 0 | | |
| | Allegation of working whilst off sick | 1 | 0 | 0 | | |
| **Corporate Property and Major Projects** | Alleged misuse of telephone | 1 | 1 | 1 | Warning | £448 |
| **Regeneration, Planning & Development** | Allegation of gross negligence in managing a planning application | 1 | 1 | 1 | Pending | |
| TOTAL | | 12 | 7 | 7 | | £3,243 |

Haringey Council

| | | | |
|---|---|---|---|
| **Report for:** | Corporate Committee 29th January 2015 | **Item number** | |

| | |
|---|---|
| **Title:** | Treasury Management Strategy Statement 2015/16 – 2017/18 |

| | |
|---|---|
| **Report authorised by :** | Assistant Director – Finance (Chief Financial Officer) |

| | |
|---|---|
| **Lead Officer:** | George Bruce, Head of Finance – Treasury & Pensions George.bruce@haringey.gov.uk 020 8489 3726 |

| | |
|---|---|
| **Ward(s) affected:** N/A | **Report for** Non Key Decision |

## 1. Describe the issue under consideration

1.1 To present the Treasury Management Strategy Statement for 2015/16 to 2017/18 prior to its consideration by Full Council on 23rd February 2015 for final approval.

## 2. Cabinet Member Introduction

2.1 Not applicable.

## 3. Recommendations

3.1 That the proposed Treasury Management Strategy Statement for 2015/16 to 2017/18 be agreed and recommended to Full Council for final approval.

## 4. Other options considered

4.1 None.

## 5. Background information

Haringey Council

5.1 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.

5.2 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.

5.3 The strategy was discussed at the November meetings and has been revised to complete the tables including Prudential Indicators. The strategy will be reviewed by Overview and Scrutiny Committee on 26th January and finally submitted to Full Council on 23rd February. Any comments by Overview and Scrutiny will be verbally reported to the Committee. Training will be provided in advance of the meeting.

## 6. Comments of the Chief Financial Officer and Financial Implications

6.1 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.

6.2 New borrowing will still be required during 2015/16 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.

## 7. Head of Legal Services and Legal Implications

7.1 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

Haringey Council

the debt cap set by the Department of Communities and Local Government.

7.2 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.

7.3 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.

## 8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

## 9. Head of Procurement Comments

9.1 Not applicable.

## 10. Policy Implications

10.1 None applicable.

## 11. Use of Appendices

11.1 Appendix 1: Draft Treasury Management Strategy Statement 2015/16 – 2017/18.

## 12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

Haringey Council

## 13. Proposed Treasury Management Strategy Statement

13.1 In 2015/16 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.

13.2 There are £8 million of loans due to mature during 2015/16 and projected debt financed capital expenditure of £36 million. As the Council has already maximised its internal borrowing position, new borrowing will be required, although this will be reduced by utilising existing cash balances. Short term borrowing rates remain extraordinary low starting at 0.5% making funding via short term debt attractive. Longer rates are close to all time lows but expected to increase gradually over the next three suggesting that locking in longer term debt may have a short term carry cost but overall benefit.

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

13.4 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.

13.5 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.

13.6 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.

13.7 The counterparty list (annex 5) includes three highly rated overseas banks that are active in accepting sterling deposits. RBS / NatWest has been excluded as it credit rating has dropped below A-, but Santander UK and Coventry Building Society are re-instated. Arlingclose advises on the maximum maturity of banks deposits. Banks rated AA- or better have seen their maximum maturities

Haringey Council

reduced from 13 to 6 months. For banks with single A, the reduction has been from 6 months to 100 days. The Council has followed this guidance.

13.8 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.

13.9 The policy to minimise debt by fully using internal balances means that investment balances will also be minimised and therefore will be kept short term (it is unlikely that new deposit maturities will exceed three months) and dominated by money market funds and the DMO. Balances with individual counterparties will be much lower than the limits contained within the strategy.

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Appendix 1

**DRAFT**

# Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2017/18

Contents



Annexes

## 1. Background

1.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the Communities and Local Government (CLG) Department's Investment Guidance and the Authority's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.

1.2 CIPFA has defined Treasury Management as:
*"the management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

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

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

1.5 The purpose of this report is to propose:

- Treasury Management Strategy - Borrowing in Section 4, Investments in Section 5
- Prudential Indicators – these are detailed throughout the report and summarised in Annex 2
- MRP Statement – Section 10

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

## 2. CIPFA Treasury Management Code of Practice

2.1 Adoption of the CIPFA Treasury Management Code of Practice is one of the Prudential Indicators. The Council originally adopted the Code of Practice in May 2002. Revisions to the Code in 2009 and 2011 have been reflected in updated versions of all policies and procedures.

## 3. Balance Sheet and Treasury Position

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

*Table 1a: Treasury Position – General Fund*

| | 31/03/2014 Actual £'000 | 31/03/2015 Estimate £'000 | 31/03/2016 Estimate £'000 | 31/03/2017 Estimate £'000 | 31/03/2018 Estimate £'000 |
|---|---|---|---|---|---|
| General Fund CFR | 272,753 | 283,396 | 295,121 | 313,368 | 307,109 |
| Less: Share of existing External Debt & Other Long Term Liabilities | 154,927 | 147,684 | 139,960 | 130,990 | 121,925 |
| Internal Borrowing | 117,826 | 135,712 | 131,318 | 130,878 | 140,900 |
| Cumulative Net Borrowing Requirement | 0 | 0 | 23,843 | 51,500 | 44,284 |

*Table 1b: Treasury Position – HRA*

| | 31/03/2014 Actual £'000 | 31/03/2015 Estimate £'000 | 31/03/2016 Estimate £'000 | 31/03/2017 Estimate £'000 | 31/03/2018 Estimate £'000 |
|---|---|---|---|---|---|
| HRA CFR | 271,096 | 271,096 | 283,303 | 313,656 | 305,348 |
| Less: Share of Existing External Debt & Other Long Term Liabilities | 206,646 | 197,981 | 191,454 | 182,483 | 173,705 |
| Internal Borrowing | 64,450 | 73,115 | 69,780 | 62,100 | 58,969 |
| Cumulative Net Borrowing Requirement | 0 | 0 | 22,069 | 69,073 | 72,674 |

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

3.3 Ensuring that gross external debt does not exceed the CFR over the medium term is a key indicator of prudence. There has been no difficulty meeting this requirement in 2014-15 to date, nor are there any difficulties envisaged for future years, as the levels of internal borrowing in tables 1a and 1b above demonstrate.

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

*Table 2: HRA Debt Cap*

| | 31/03/2014 Actual £'000 | 31/03/2015 Estimate £'000 | 31/03/2016 Estimate £'000 | 31/03/2017 Estimate £'000 | 31/03/2018 Estimate £'000 |
|---|---|---|---|---|---|
| HRA CFR | 271,096 | 271,096 | 283,303 | 313,656 | 305,348 |
| HRA Debt cap | 327,538 | 327,538 | 327,538 | 327,538 | 327,538 |
| Headroom | 56,442 | 56,442 | 44,235 | 13,882 | 22,190 |

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

*Table 3: Capital Expenditure*

| | 2013/14 Actual £'000 | 2014/15 Approved £'000 | 2014/15 Projected Out-turn £'000 | 2015/16 Estimate £'000 | 2016/17 Estimate £'000 | 2017/18 Estimate £'000 |
|---|---|---|---|---|---|---|
| General | 41,510 | 46,563 | 78,489 | 52,568 | 50,682 | 52,410 |
| HRA | 32,074 | 63,310 | 48,851 | 68,504 | 82,847 | 55,668 |
| Total | 73,584 | 109,873 | 127,340 | 121,072 | 133,529 | 108,078 |

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

*Table 4: Capital Financing*

| | 2013/14 Actual £'000 | 2014/15 Approved £'000 | 2014/15 Projected Out-turn £'000 | 2015/16 Estimate £'000 | 2016/17 Estimate £'000 | 2017/18 Estimate £'000 |
|---|---|---|---|---|---|---|
| Capital receipts | 1,009 | 9,269 | 15,341 | 14,918 | 4,926 | 45,771 |
| Other grants & contributions | 18,534 | 9,896 | 11,165 | 30,953 | 18,721 | 18,116 |
| Government Grants | 12,566 | 32,307 | 31,393 | 11,285 | 4,000 | 3,000 |
| Reserves / Revenue contributions | 28,981 | 40,044 | 36,625 | 28,260 | 45,853 | 44,180 |
| Total Financing | 61,090 | 91,516 | 94,524 | 85,416 | 73,500 | 111,067 |
| Borrowing | 12,494 | 18,357 | 32,816 | 35,656 | 60,029 | -2,989 |
| Total | 73,584 | 109,873 | 127,340 | 121,072 | 133,529 | 108,078 |

3.7 As an indicator of affordability the table below shows the incremental impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme (based on the interest cost of capital receipts and borrowing applied to capital expenditure) with the number of homes paying council tax (GF) and the number of rented properties (HRA). The General Fund ratio peaks in the current year as the allocation of capital receipts and borrowing to capital expenditure of £48 million is twice that included in the pre-year projection (£26 million).

*Table 5: Incremental Impact of Capital Investment Decisions*

| | 2013/14 Actual £'000 | 2014/15 Approved £'000 | 2014/15 Projected Out-turn £'000 | 2015/16 Estimate £'000 | 2016/17 Estimate £'000 | 2017/18 Estimate £'000 |
|---|---|---|---|---|---|---|
| Increase in Band D Council Tax | 11.59 | 17.19 | 44.67 | 31.47 | 40.18 | 16.63 |
| Increase in Average Weekly Housing Rents | 0.09 | 0.17 | 0.09 | 1.35 | 3.54 | 0.38 |

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

3.9 Although the General Fund's share of borrowing is expected to increase by £20 million in the next three years and revenue will fall, the change in the financing ratio is supported due to the interest cost on maturing debt exceeding that on replacement borrowing.ues. There is a similar impact for HRA were the impact of retiring debt exceeds the cost of additional new debt.

*Table 6: Ratio of Financing Costs to Net Revenue Stream*

| | 2013/14 Actual<br><br>% | 2014/15 Approved<br><br>% | 2014/15 Projected Out-turn<br>% | 2015/16 Estimate<br><br>% | 2016/17 Estimate<br><br>% | 2017/18 Estimate<br><br>% |
|---|---|---|---|---|---|---|
| General Fund | 2.38 | 2.16 | 1.93 | 1.90 | 2.20 | 2.33 |
| HRA | 11.89 | 11.13 | 9.91 | 9.28 | 9.92 | 10.12 |

## 4. Borrowing Strategy

4.1 A breakdown of the Council's current and expected external borrowing plus other long-term liabilities is shown in Annex 1. This is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit. Debt (excluding leases) is projected at £294 million at the year end, a decrease of £13 million during the year. No new borrowing, including temporary borrowing, has been required. It is anticipated that new borrowing of £32 million, including £11 million of maturities will be required next year, *after allowing for lower cash balances*. Borrowing to pre-fund future year requirements will be considered when this will result in interest savings.

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

*Table 7: Authorised Limit for External Debt*

| | 2013/14 Actual Debt £'000 | 2014/15 Approved £'000 | 2014/15 Projected Out-turn £'000 | 2015/16 Authorised Boundary £'000 | 2016/17 Authorised Boundary £'000 | 2017/18 Authorised Boundary £'000 |
|---|---|---|---|---|---|---|
| Borrowing | 307,159 | 489,334 | 294,065 | 441,211 | 514,197 | 524,208 |
| Other Long-term Liabilities | 54,414 | 71,745 | 51,600 | 62,321 | 59,101 | 52,784 |
| Total | 361,573 | 561,079 | 345,665 | 503,532 | 573,298 | 576,992 |

4.3 The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit. The Operational Boundary and Authorised Limit apply at the total level. The limits compare with existing gross debt of £346 million and projected three year debt financed capital expenditure of £93 million and provides scope for variations in capital expenditure, funding sources and reserves.

*Table 8: Operational Boundary for External Debt*

| | 2013/14 Actual Debt £'000 | 2014/15 Approved £'000 | 2014/15 Projected Out-turn £'000 | 2015/16 Authorised Boundary £'000 | 2016/17 Authorised Boundary £'000 | 2017/18 Authorised Boundary £'000 |
|---|---|---|---|---|---|---|
| Borrowing | 307,159 | 359,099 | 294,065 | 391,211 | 464,197 | 474,208 |
| Other Long-term Liabilities | 54,414 | 66,745 | 51,600 | 56,656 | 51,392 | 45,899 |
| Total | 361,573 | 425,844 | 345,665 | 447,867 | 515,589 | 520,107 |

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

4.5 Treasury management and borrowing strategies in particular continue to be influenced not only by the absolute level of borrowing rates but also the relationship between short and long term interest rates. The interest rate forecast provided in Annex 3 indicates that an acute difference between short and longer term interest rates is expected to continue into 2017. This difference creates a "cost of carry" for any new longer term borrowing where the proceeds are temporarily held as investments because of the difference between what is paid on the borrowing and what is earned on the investment.

4.6 This "cost of carry" has been a feature of money markets since 2009-10 and by essentially lending its own surplus funds to itself (i.e. internal borrowing) the Council has minimised borrowing costs and reduced overall treasury risk by reducing the level of its external investment balances. As this position is expected to continue throughout 2015-17, there are no plans to replace this internal borrowing with external borrowing. When the 2014-15 strategy was prepared it was projected that new external borrowing of approximately £34 million was required in the year to refinance maturing debt and a reduced level of internal borrowing. Currently, no new debt in the current financial year is anticipated.

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

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

4.8 In conjunction with advice from Arlingclose Ltd, its treasury management adviser, the Council will keep under review the following borrowing options:

- PWLB loans
- Municipal Bond Agency
- Borrowing from other local authorities
- Borrowing from institutions such as the European Investment Bank and directly from Commercial Banks
- Borrowing from the Money Markets
- Capital markets (stock issues, commercial paper and bills)
- Structured finance
- Leasing

4.9 One new borrowing route may become available next year, the Municipal Bond Agency ("MBA"). This is a vehicle initiated by the Local Government Association and supported by Council's to collectively raise debt at rates below the PWLB. The dilemma in considering the MBA is that initially its rates and flexibility may be inferior to the PWLB and require joint and several guarantees covering borrowing by other councils but if successfully launched will be in a good position to save on the PWLB margin of 80b.p. charged above the Government's cost of borrowing. Borrowing from the MBA will require pre-approval from Legal and the Corporate Committee.

4.10 Looking forward, the Council's capital plans currently remain uncertain as to the value and timing of expenditure. However, based on debt maturities and project bids there is an aggregate borrowing requirement of £93 million in the next three years. With long term rates anticipated to increase by 100-130 bps in the next 36 months, it may be economic to lock in longer term borrowing when greater capital expenditure visibility is available, even if this does entail a short term cost. In particular, longer term rates have demonstrated volatility and interest costs can be mitigated by timing the acquisition of new debt.

4.11 Discussions are currently being held with Arlingclose on forward starting debt that enable new borrowing commencing in up to three years to be agreed at current interest rates thus allowing low cost short term debt to be used for the next three years without missing the opportunity to lock into low cost long term borrowing. If the loan structure is suitable this is an attractive opportunity to minimise interest costs.

4.12 The “cost of carry” discussed above has resulted in recent preference for shorter dated and variable rate borrowing. These types of borrowing inject volatility into the debt portfolio in terms of interest rate risk, however this is counterbalanced by its affordability and alignment of borrowing costs with investment returns. In practice relatively little new borrowing has been required in recent years. At present short term (weekly) local authority rates of 0.5% compare with 10-50 year PWLB rates of 2.4% to 3.1%.

4.13 The intention for 2015-16 is that any new borrowing will be short term debt. Thereafter there will be a switch to longer dated maturities. The Council’s exposure to shorter dated and variable rate borrowing is kept under regular review by reference to the difference between variable rate and longer term borrowing costs. A narrowing in the spread between 3 month and 20 year rates to under 2% will result in a review of the borrowing strategy in conjunction with the Council’s treasury management advisers to determine whether the exposure to shorter dated and variable rates is maintained or altered.

4.14 The Council has £125m of loans which are LOBO loans (Lender’s Options Borrower’s Option) and all of them are in their call periods. A LOBO is called when the Lender exercises its right to amend the interest rate on the loan at which point the Borrower can accept the revised terms or reject them and repay the loan. LOBO loans present a potential refinancing risk to the Council since the decision to call a LOBO is entirely at the lender’s discretion. As LOBOs currently make up 42% of the total external debt portfolio, this is a significant risk. However, at the present time the interest rates on LOBO loans of 4.7% to 4.75% are above PWLB rates making any opportunities to repay both unlikely and financially beneficial. Any LOBO called will be discussed with the Council’s treasury advisers prior to the acceptance of any revised terms. The default position will be the repayment of the LOBO without penalty i.e. the revised terms will not be accepted. One lender has offered premature repayment but at a 60% premium, which is considered excessive and has been declined.

4.15 The Council's debt portfolio can be restructured by prematurely repaying loans and refinancing them on similar or different terms to achieve a reduction in risk and/or savings in interest costs. The lower interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring, although occasional opportunities arise. The rationale for undertaking any debt rescheduling would be one or more of the following:

- Savings in risk adjusted interest costs
- Rebalancing the interest rate structure of the debt portfolio
- Align long term cash flow projections and debt levels
- Changing the maturity profile of the debt portfolio.

In the short term gains would accrue from replacing long term debt with shorter maturities, but from a longer term perspective this would not add value. Borrowing and rescheduling activity will be reported to Corporate Committee as part of the quarterly monitor reports.

4.16 The following Prudential Indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

4.17 The Council's existing level of fixed interest rate exposure is 98% and variable rate exposure is 2%, however it is recommended that the limits in place for 2014/15 are maintained in future to retain flexibility. At present variable rates from the PWLB compare unfavourably with short term loans from local authorities due to the additional margin charged over gilts. If LOBO loans are treated as variable, the current variable allocation is 44%.

*Table 9: Fixed and Variable Interest Rate Exposure*

| | 2014/15 Approved % | 2014/15 Actual % | 2015/16 Upper Limit % | 2016/17 Upper Limit % | 2017/18 Upper Limit % |
|---|---|---|---|---|---|
| Upper Limit for Fixed Interest Rate Exposure | 100 | 98 | 100 | 100 | 100 |
| Upper Limit for Variable Interest Rate Exposure | 40 | 2 | 40 | 40 | 40 |

4.18 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.

4.19 The maturity range has been applied to LOBO loans (see 4.12 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.

| | Lower Limit | Upper Limit | 31-Mar-15 | 31-Mar-15 |
|---|---|---|---|---|
| | % | % | % | LOBO adjusted % |
| under 12 months | 0% | 40% | 4% | 46% |
| 12 months & within 24 months | 0% | 35% | 4% | 4% |
| 24 months & within 5 years | 0% | 35% | 11% | 11% |
| 5 years & within 10 years | 0% | 35% | 13% | 13% |
| 10 years & within 20 years | 0% | 35% | 0% | 0% |
| 20 years & within 30 years | 0% | 35% | 8% | 4% |
| 30 years & within 40 years | 0% | 35% | 22% | 9% |
| 40 years & within 50 years | 0% | 50% | 13% | 13% |
| 50 years & above | 0% | 50% | 25% | 0% |

4.20 The average interest rate on debt will decline in 2015-16 from 5.39% to 5.04%, with annual interest costs falling by £0.9 million to £15.4 million.

## 5. Investment Policy and Strategy

5.1 Guidance from the Communities and Local Government Department (CLG) on Local Government Investments in England requires that an Annual Investment Strategy be set.

5.2 The Council investments represent income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's investment balance has ranged between £10 and £86 million. Cash balances will continue to vary depending on the timing of cashflows, although peak balances should be lower next year as borrowing is postponed.

5.3 The Council's investment priorities are, in this order:

- security of the invested capital;
- liquidity of the invested capital; and
- an optimum yield that is commensurate with security and liquidity.

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

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

The quarterly scores during 2014-15 have been within the range 3.7 to 4.9, which is within the target score. For the next three years the target will remain 3 to 5.

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 Annex 4 and the list of proposed counterparties is shown in Annex 5. In keeping with the strategy of maintaining low investment balances while internally borrowing, it is proposed that all investments will have a maturity of less than one year during 2014/15. The Chief Financial Officer, under delegated powers, will undertake the most appropriate form of investments in keeping with the investment objectives, income and risk management requirements and Prudential Indicators. Investment activity will be reported to Corporate Committee as part of the quarterly reports.

5.6 Although the UK economy has reported strong GDP growth in recent quarters this has had a mixed impact on the UK banking sector. Bank credit ratings have continued to weaken with RBS / NatWest dropping below the minimum rating of A-. UK Banks have suffered losses due to compensation payments and regulatory fines with the Government's determination to share the cost of future rescues with unprotected creditors (bail in risk) also pushing down on credit ratings. Banking share prices have declined in the year (RBS is the exception) but the cost of incurring against banking defaults (CDS spreads) has fallen, in the case of RBS by 50%. The combination of weaker rated banks and Government's requiring creditors to contribute towards the cost of supporting banks pose considerable investment challenges. Constructing an investment portfolio in these circumstances will consider the following approaches to risk mitigation:

a) Continuing to minimise investment balances through delaying new borrowing.
b) Investing with the UK Government backed DMO and other UK local authorities.
c) Maintaining a diversified investment portfolio to spread risk, including money market & enhanced cash funds.
d) Including high quality overseas banks in the counterparty list.
e) Investing in 'covered deposits' which offer an additional layer of protection in the form of backing assets.

f) Buying tradable instruments such as commercial paper that offer access to non financial counterparties and can improve liquidity.

5.7 Reference was made in 5.6 to bail in risk. The UK (and other) Governments have legislated that when a bank's capital ratio falls below minimum levels and the bank is not able to raise fresh capital that part of the non protected customer deposits will be converted into share capital. Protected deposits include retail and non financial business customers. Local authorities deposits are <u>not</u> protected and will therefore suffer a greater loss than if the bail in was spread across all deposits. Bail in increases the risk to the Council from bank deposits. An appropriate response is to reduce reliance on bank deposits, lower exposures to the weaker banks and increase diversification of bank deposits. For this reason three overseas banks have been included within the counterparty list (appendix 5)

5.8 The Counterparty policy (appendix 4) incorporates the above options. Consideration was given to reducing the minimum credit quality below A- to facilitate access to a wider range of UK banks and building societies, but this was rejected as increasing the default risk. No investments will have duration of more than 12 months and in practice durations of more than 3 months are unlikely, unless borrowing to support capital expenditure is taken early to capture favourable rates.

5.9 With all investments the Council makes there is a risk of default, so the proposed list of investments is prepared to minimise this risk by being selective about the counterparties to be used. It is proposed to continue to apply a minimum long term credit rating of A-, which is described as "high credit quality" by the rating agencies.

5.10 The Council treasury advisor recommends maximum maturities for individual counterparties and although these are only advisory, they are being followed.

5.11 All counterparties on the list are subjected to continual monitoring, in conjunction with the Council's treasury management advisers, to ensure that they continue to meet the high standard set. The range of information used to determine creditworthiness is:

- Credit ratings (long and short term and credit rating watches
- Credit Default Swaps (where quoted)
- Sovereign support mechanisms/potential support from a well-resourced parent institution
- Share prices
- Macro-economic indicators
- Corporate developments, news and articles, market sentiment.

5.12 If the monitoring reveals any concern about an institution's creditworthiness, it will be removed from the lending list with immediate effect. In normal circumstances a credit rating downgrade below the minimum criteria will not result in existing term deposits being recalled prior to contractual maturity. In any period of significant stress in the markets, the default position is for investments to be made with the Debt Management Office or UK Treasury Bills. (The rates of interest from the DMADF are below equivalent money market rates, but the returns are an acceptable trade-off for the guarantee that the Council's capital is secure). Current conditions are not considered to be "significant stress".

5.13 In order to diversify the investment portfolio, investments will be placed with a range of approved investment counterparties. Maximum investment levels with each counterparty are set out in Annex 5 will ensure prudent diversification is achieved.

5.14 Money Market Funds (MMFs) and Enhanced Cash Funds (ECFs) provide good diversification of underlying counterparty but may themselves be subject to withdrawal restriction. The Council will therefore seek to diversify any exposure by utilising more than one MMF or ECF unless there are significant instant access funds from other sources. The Council will also restrict its exposure to MMFs and ECFs with lower levels of funds under management and will not exceed 2% of the net asset value of the MMF or ECFs.

5.15 The Council is required to set an upper limit for principal sums invested for over 364 days, as required by the Prudential Code. This limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. Given the current interest rate environment, the Council will not make investments for more than 364 days (see comments in 5.6 above).

5.16 The average rate of interest earned on investments during 2014-15 is projected at 0.35%. For 2015-16 the average rate is expected to increase to 0.5% reflecting forecast changes in base rates and a continuity emphasis on security and liquidity. Interest earned in 2014-15 is projected at £130,000, with similar levels in 2015-16.

## 6. Use of Financial Instruments for the Management of Risks

6.1 The CIPFA Treasury Management Code of Practice requires the Council to state if and how it will use financial instruments, such as derivatives. Currently, local authorities' legal power to use derivative instruments remains unclear. The General Power of Competence enshrined in the Localism Bill is not sufficiently explicit. Consequently, the Council does not intend to use derivatives. Should this position change, the Council may develop a detailed and robust risk management framework governing the use of derivatives, but such a change in strategy would require full Council approval.

## 7. Housing Revenue Account Self-financing

7.1 Local authorities are required to recharge interest expenditure and income attributable to the HRA in accordance with Determinations issued by the Department for Communities and Local Government.

7.2 The Determinations do not set out a methodology for calculating the interest rate to use in each instance. The Council is therefore required to adopt a policy that will set out how interest charges attributable to the HRA will be determined. The CIPFA Treasury Management Code of Practice recommends that authorities present this policy in the annual Treasury Management Strategy Statement.

7.3 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 to one pool or the other taking into consideration projected capital expenditure and reserves. 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.

7.4 Differences between the value of the HRA loan 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 periodically and interest transferred between the General Fund and HRA at the net average rate earned by the Council on its portfolios of treasury investments and short term borrowing.

## 8. Outlook for Interest Rates

8.1 The interest rate forecast provided by the Council's treasury management adviser, Arlingclose Ltd, is attached at Annex 3. The Council will reappraise its strategy from time to time and, if needs be, realign it with evolving market conditions and expectations for future interest rates.

8.2 This interest rate forecast shows that UK base rate is forecast to remain at 0.5% until quarter 3, 2015, rising slowly in 0.25% instalments thereafter. This will mean that short term rates remain significantly lower than long term rates throughout 2014/15 and beyond. As discussed in section 4, for this reason it is anticipated that cash balances will kept at a minimum throughout the financial year as the "cost of carry" will be significant for any borrowing taken before capital expenditure is incurred.

## 9. Balanced Budget Requirement

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

## 10. MRP Statement

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

10.2 The four MRP options available are:
Option 1: Regulatory Method
Option 2: CFR Method
Option 3: Asset Life Method
Option 4: Depreciation Method

10.3 MRP in 2014/15: The guidance states Options 1 and 2 may be used only for capital expenditure originally incurred when government support was available. Methods of making prudent provision for self financed expenditure include Options 3 and 4. There is no requirement to charge MRP in respect of HRA capital expenditure funded from borrowing.

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

10.5 It is proposed the Council will continue to apply Option 1 (charge 4% per annum over 25 years) in respect of capital expenditure originally incurred when government support was available and Option 3 (charge over the life of the asset) in respect of all other capital expenditure funded through borrowing. MRP in respect of leases and PFI (Private Finance Initiative) schemes brought onto the Balance Sheet under the IFRS (International Financial Reporting Standards) based Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

## 11. Capital Expenditure

11.1 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.

11.2 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.

## 12. Other Options Considered

12.1 The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer 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 will 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 will 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 will 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 will 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 will be less certain |

## 13. Other Issues

**<u>Monitoring & Reporting</u>**

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

13.2 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.

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

**Training**

13.4 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.

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

**Treasury Advisor**

13.6 The CLG's Guidance on local government investments recommends that the Investment Strategy should state:

"Whether and, if so, how the authority uses external contractors offering information, advice or assistance relating to investment and how the quality of any such service is controlled."

13.7 The Council has appointed Arlingclose Limited as their treasury advisor, to provide information and advice about the types of investment and borrowing the Council should undertake and the counterparties that should be used. Quarterly service review meetings take place to monitor the service and the appointment is formally reviewed in accordance with the Council's Contract Standing Orders.

**ANNEX 1**

**Detail of Treasury Position**

**A: General Fund Pool**

| | 31-Mar-15 Projected £'000 | 31-Mar-16 Estimate £'000 | 31-Mar-17 Estimate £'000 | 31-Mar-18 Estimate £'000 |
|---|---|---|---|---|
| Existing External Borrowing commitments: | | | | |
| PWLB | 53,803 | 50,466 | 45,882 | 41,395 |
| Market loans | 42,281 | 42,281 | 42,281 | 42,281 |
| Local Authorities | 0 | | | |
| Total External Borrowing | 96,084 | 92,747 | 88,163 | 83,676 |
| Long Term Liabilities | 51,600 | 47,213 | 42,827 | 38,249 |
| Total Gross External Debt | 147,684 | 139,960 | 130,990 | 121,925 |
| CFR | 283,396 | 295,121 | 313,368 | 307,109 |
| Internal Borrowing | 135,712 | 131,318 | 130,878 | 140,900 |
| Cumulative Borrowing requirement | 0 | 23,843 | 51,500 | 44,284 |

**B: HRA Pool**

| | 31-Mar-15 Projected £'000 | 31-Mar-16 Estimate £'000 | 31-Mar-17 Estimate £'000 | 31-Mar-18 Estimate £'000 |
|---|---|---|---|---|
| Existing External Borrowing commitments: | | | | |
| PWLB | 115,262 | 108,735 | 99,764 | 90,989 |
| Market loans | 82,719 | 82,719 | 82,719 | 82,716 |
| Local Authorities | | | | |
| Total External Borrowing | 197,981 | 191,454 | 182,483 | 173,705 |
| CFR | 271,096 | 283,303 | 313,656 | 305,348 |
| Internal Borrowing | 73,115 | 69,780 | 62,100 | 58,969 |
| Cumulative Borrowing requirement | 0 | 22,069 | 69,073 | 72,674 |

**C: Security Measure**

| | | **2015-16** | **2015-16** | **2015-16** |
|---|---|---|---|---|
| Above target | AAA to AA+ | Score 0 - 2 | Score 0 - 2 | Score 0 - 2 |
| Target score | AA to A+ | Score 3 - 5 | Score 3 - 5 | Score 3 - 5 |
| Below target | Below A+ | Score over 5 | Score over 5 | Score over 5 |

**ANNEX 2**

**Summary of Prudential Indicators**

| No. | Prudential Indicator | 2015/16 | 2016/17 | 2017/18 |
|---|---|---|---|---|
| **CAPITAL INDICATORS** | | | | |
| 1 | Capital Expenditure | £'000 | £'000 | £'000 |
| | General Fund | 52,568 | 50,682 | 52,410 |
| | HRA | 68,504 | 82,847 | 55,668 |
| | TOTAL | 121,072 | 133,529 | 108,078 |
| | | | | |
| 2 | Ratio of financing costs to net revenue stream | % | % | % |
| | General Fund | 1.90 | 2.20 | 2.33 |
| | HRA | 9.28 | 9.92 | 10.12 |
| | | | | |
| 3 | Capital Financing Requirement | £'000 | £'000 | £'000 |
| | General Fund | 295,121 | 313,368 | 307,109 |
| | HRA | 283,303 | 313,656 | 305,348 |
| | TOTAL | 578,424 | 627,024 | 612,457 |
| | | | | |
| 4 | Incremental impact of capital investment decisions | £ | £ | £ |
| | Band D Council Tax | 31.47 | 40.18 | 16.63 |
| | Weekly Housing rents | 1.35 | 3.54 | 0.38 |

| **No.** | **Prudential Indicator** | **2015/16** | | **2016/17** | | **2017/18** | |
|---|---|---|---|---|---|---|---|
| **TREASURY MANAGEMENT LIMITS** | | | | | | | |
| 5 | Borrowing limits | £'000 | | £'000 | | £'000 | |
| | Authorised Limit | 503,532 | | 573,298 | | 576,992 | |
| | Operational Boundary | 447,867 | | 515,589 | | 520,107 | |
| | | | | | | | |
| 6 | HRA Debt Cap | £'000 | | £'000 | | £'000 | |
| | Headroom | 44,235 | | 13,882 | | 22,190 | |
| | | | | | | | |
| 7 | Upper limit – fixed rate exposure | 100% | | 100% | | 100% | |
| | Upper limit – variable rate exposure | 40% | | 40% | | 40% | |
| | | | | | | | |
| 8 | Maturity structure of borrowing<br>(U: upper, L: lower) | L | U | L | U | L | U |
| | under 12 months | 0% | 40% | 0% | 40% | 0% | 40% |
| | 12 months & within 2 yrs | 0% | 35% | 0% | 35% | 0% | 35% |
| | 2yrs & within 5 yrs | 0% | 35% | 0% | 35% | 0% | 35% |
| | 5 yrs & within 10 yrs | 0% | 35% | 0% | 35% | 0% | 35% |
| | 10 yrs & within 20 yrs | 0% | 35% | 0% | 35% | 0% | 35% |
| | 20 yrs & within 30 yrs | 0% | 35% | 0% | 35% | 0% | 35% |
| | 30 yrs & within 40 yrs | 0% | 35% | 0% | 35% | 0% | 35% |
| | 40 yrs & within 50 yrs | 0% | 50% | 0% | 50% | 0% | 50% |
| | 50 yrs & above | 0% | 50% | 0% | 50% | 0% | 50% |
| | | | | | | | |
| 9 | Sums invested for more than 364 days | 0 | | 0 | | 0 | |
| | | | | | | | |
| 10 | Adoption of CIPFA Treasury Management Code of Practice | √ | | √ | | √ | |

## ANNEX 3

## Arlingclose's Economic and Interest Rate Forecast

| | Jun 15 | Sep 15 | Dec 15 | Mar 16 | Jun 16 | Sep 16 | Dec 16 | Mar 17 | Jun 17 | Sep 17 | Dec 17 | Mar 18 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Base Rate | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 | 1.25 | 1.25 | 1.50 | 1.50 | 1.75 | 1.75 | 1.75 |
| 3 month LIBID | 0.75 | 0.90 | 1.05 | 1.20 | 1.35 | 1.50 | 1.60 | 1.70 | 1.80 | 1.90 | 2.00 | 2.10 |
| 1 year LIBID | 1.05 | 1.20 | 1.35 | 1.50 | 1.65 | 1.80 | 1.95 | 2.10 | 2.20 | 2.30 | 2.40 | 2.50 |
| 5 yr gilt | 1.60 | 1.75 | 1.90 | 2.00 | 2.15 | 2.25 | 2.35 | 2.45 | 2.50 | 2.55 | 2.60 | 2.60 |
| 10 yr gilt | 2.10 | 2.20 | 2.30 | 2.40 | 2.50 | 2.60 | 2.70 | 2.75 | 2.80 | 2.85 | 2.90 | 2.95 |
| 20 yr gilt | 2.65 | 2.75 | 2.85 | 2.95 | 3.00 | 3.05 | 3.10 | 3.15 | 3.20 | 3.25 | 3.30 | 3.30 |
| 50 yr gilt | 2.70 | 2.80 | 2.90 | 3.00 | 3.05 | 3.10 | 3.15 | 3.20 | 3.25 | 3.30 | 3.55 | 3.60 |

**Underlying assumptions:**

- The UK economic recovery has continued. Household consumption remains a significant driver, but there are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP in 2015.
- We expect consumption growth to slow, given softening housing market activity, the muted outlook for wage growth and slower employment growth. The subdued global environment suggests there is little prospect of significant contribution from external demand.
- Inflationary pressure is currently low (annual CPI is currently 0.5%) and is likely to remain so in the short-term. Despite a correction in the appreciation of sterling against the US dollar, imported inflation remains limited. We expect commodity prices will remain subdued given the weak outlook for global growth.
- The MPC's focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee.
- Nominal earnings growth remains weak, despite large falls in unemployment, which poses a dilemma for the MPC. Our view is that spare capacity remains extensive. The levels of part-time, self-employment and underemployment are significant and

indicate capacity within the employed workforce, in addition to the still large unemployed pool. Productivity growth can therefore remain weak in the short term without creating undue inflationary pressure.

- However, we also expect employment growth to slow as economic growth decelerates. This is likely to boost productivity, which will bear down on unit labour costs and inflationary pressure.
- In addition to the lack of wage and inflationary pressures, policymakers are evidently concerned about the bleak prospects for the Eurozone. These factors will maintain the dovish stance of the MPC in the medium term.
- The continuing repair of public and private sector balance sheets leave them sensitive to higher interest rates. The MPC clearly believes the appropriate level for Bank Rate for the post-crisis UK economy is significantly lower than the previous norm. We would suggest this is between 2.5 and 3.5%.
- While the ECB is likely to introduce outright QE, fears for the Eurozone are likely to maintain a safe haven bid for UK government debt, keeping gilt yields artificially low in the short term.
- The probability of potential upside risks crystallising have waned a little over the past two months. The primary upside risk is a swifter recovery in the Eurozone.
- We continue to forecast the first rise in official interest rates in Q3 2015; general market sentiment is now close to this forecast. There is momentum in the economy, but inflationary pressure is benign and external risks have increased, reducing the likelihood of immediate monetary tightening.
- We project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; we believe the normalised level of Bank Rate post-crisis to range between 2.5% and 3.5%.
- Market sentiment (derived from forward curves) has shifted significantly lower in the past three months; market expectations are now for a later increase in interest rates and a more muted increase in gilt yields.
- The short run path for gilt yields is flatter due to the deteriorating Eurozone situation. We project gilt yields on an upward path in the medium term.

**ANNEX 4**

**Counterparty Policy**

The investment instruments identified for use in 2015-16 are listed below under the 'Specified' and 'Non – Specified' investment categories. Specified investments are considered low risk and relate to funds invested for up to one year. Non-specified investments normally offer the prospect of higher returns but carry higher risk and may have a maturity beyond one year. All investments are sterling denominated.

As discussed in sections 4 & 5 above the plan during 2015-16 is to reply on short term debt and minimise cash balances. This will lead to short duration DMO and money market denominated cash portfolio to cover liquidity needs.

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 | £30m per local authority | 364 days |
| Term Deposits/ Call Accounts/ Certificates of Deposit/covered deposits | UK or AAA | Counterparties rated at least AA- Long Term (or equivalent) | £20m per bank or banking group | 364 days |
| Constant Net Asset Value Money Market Funds (MMFs) | UK/Ireland/Luxembourg domiciled | AAA rated Money Market Funds | £20m per MMF*; Group limit £100m | Instant Access |

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). Investment in gilts would only be undertaken on advice from the Council's treasury management adviser.

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).

*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 section 5.9.

The limits stated 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.

* Limit per MMF to be no more than 2.0% of the Money Market Fund's total assets.

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

<u>Non- Specified Investments</u>

| **Instrument** | **Country/ Domicile** | **Counterparty** | **Maximum Counterparty Limits £m** | **Maximum period of investment** |
|---|---|---|---|---|
| Gilts | UK | Debt Management Office (DMO) | £10 million | 36 Months |
| Term Deposits/ Call Accounts | UK | Other UK Local Authorities | £30m per local authority | 36 Months |
| Term Deposits/ Call Accounts/ Certificates of Deposit/covered deposits | UK | Counterparties rated at least A- Long Term (or equivalent). | £20m per bank or banking group | 364 days |
| Variable NAV Enhanced Cash Funds | UK/Ireland/Luxembourg domiciled | AAA - rated Funds | £5m per ECF*; Group limit £15m | Minimum Weekly Redemption |

Non specified investments generally have either longer maturities than one year or weaker credit ratings than AA-, but not both. Maturities in excess of

12 months will only be used after discussion with the Corporate Committee but have been included to remove the need for mid year strategy amendments.

Enhanced Cash Funds

Last year enhanced cash funds (also known as short dated bond funds) were included in the counterparty policy for the first time. To date, no investment has been made in these funds, which share many of the characteristics of money market funds. ECF's target a higher return than money market funds by extending the average maturity.

The use of such funds has been discussed with the Council's treasury advisor who are supportive provided the exposure is limited to 20-25% of the total deposits and we invest with higher security / lower volatility funds. A maximum of £5 million invested with a single fund is proposed. The Corporate Committee will be notified before the first investment with any such fund. The ECF's and money market funds used will only invest in cash and bonds, not equities or property due to the latter's greater volatility.

**ANNEX 5**

**Lending List of counterparties for investments**

This is the proposed list of counterparties which the Council can lend to, providing the counterparties meet the requirements set out in Annex 4 at the time of investment. The list will be kept under constant review and counterparties removed if the process described in 5.7 and 5.8 raises any concerns about their credit worthiness.

| Instrument | Country/ Domicile | Counterparty | Maximum Counterparty Limit £m | Arlingclose Suggested max maturity |
|---|---|---|---|---|
| Gilts, Treasury Bills, Term Deposits | UK | Debt Management Office (Term deposits & Deposit Facility) | No limit | N/A |
| Term Deposits | UK | Other Local Authorities | £30m per local authority | N/A |
| Term Deposits/ Call Accounts/ Certificates of Deposit | UK | Barclays Bank Plc | 20 | 100 days |
| Term Deposits/ Call Accounts/ CDs | UK | HSBC Bank Plc | 20 | 6 months |
| Term Deposits/ Call Accounts/ CDs | UK | Lloyds Banking Group including Lloyds TSB and Bank of Scotland | 20 | 6 months |
| Term Deposits/ Call Accounts/ CDs | UK | Santander UK | 20 | 6 months |
| Term Deposits/ Call Accounts/ CDs | UK | Nationwide Building Society | 20 | 6 months |
| Term Deposits/ Call Accounts/ CDs | UK | Standard Chartered Bank | 20 | 6 months |
| Term Deposits/ Call Accounts/ Certificates of Deposit | UK | Coventry Building Society | 20 | 100 days |
| Term Deposits/ Call Accounts/ CDs | Sweden | Svenska Handelsbanken | 20 | 6 months |
| Term Deposits/ Call Accounts/ CDs | Australia | National Australian Bank | 20 | 6 months |
| Term Deposits/ Call Accounts/ CDs | Australia | Australia & New Zealand Banking Group | 20 | 6 months |

Compared with last year, RBS has been removed from list and Santander UK, Coventry Building Society and the three non UK banks added. Arlingclose recommend maximum maturities of 6 months for the above with the exception of Barclays and Coventry Building Society (100 days). Coventry is one of the best capitalised banks or building societies in the UK and once the credit ratings of UK banks are adjusted to reflect reduced government support, its credit ratings will also be among the highest.

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

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Haringey Council

| | | | |
|---|---|---|---|
| **Report for:** | Corporate Committee 29 January 2015 | **Item number** | |

| | |
|---|---|
| **Title:** | Delegated Decisions /Significant Actions/ Urgent Actions |

| | |
|---|---|
| **Report authorised by :** | Assistant Director of Corporate Governance and Monitoring Officer |

| | |
|---|---|
| **Lead Officer:** | Clifford Hart (Tel. 020 8489 2920) |

| | |
|---|---|
| **Ward(s) affected:** Not applicable | **Report for Key/Non Key Decision:** For information |

1. **Describe the issue under consideration**

   To inform the Corporate Committee of Non-Executive delegated decisions and significant actions taken by Directors.

   To further advise of any urgent actions taken by Directors in consultation with the Chair of the Corporate Committee since the previous meeting.

   The report details by number and type decisions taken by Directors under delegated powers. Significant actions (decisions involving expenditure of more than £100,000) taken during the same period are also detailed.

2. **Cabinet Member Introduction**

   Not applicable

3. **Recommendations**

   That the report be noted.

4. **Other Options Considered**

Haringey Council

Not applicable

**5. Background Information**

To inform the Corporate Committee of non executive delegated decisions and significant actions taken by Directors

The report details by number and type decisions taken by Directors under delegated powers. Significant actions (decisions involving expenditure of more than £100,000) taken during the same period are also detailed.

In keeping with usual practices and working procedures used for Cabinet, the attached report details urgent actions taken by Directors in consultation with Corporate Committee Chair since last reported. Part three, Section E, under the scheme of delegation paragraph 4.03, of the Council Constitution provides guidance on the action that needs to be taken on any urgent matter between meetings of the Cabinet, or any committee or sub-committee of the Cabinet or the Council.

**6. Comments of the Chief Financial Officer and Financial Implications**

Where appropriate these are contained in the individual delegations.

**7. Assistant Director of Corporate Governance Comments and Legal Implications**

Where appropriate these are contained in the individual delegations.

**8. Equalities and Community Cohesion Comments**

Where appropriate these are contained in the individual delegations.

**9. Policy Implications**

Where appropriate these are contained in the individual delegations.

**10. Use of Appendices**

Appendix 1 to the report sets out, by number and type, the decisions taken by Directors under delegated powers. Significant actions (decisions involving expenditure of more than £100,000) taken during the same period are also detailed.

**11. Local Government (Access to Information) Act 1985**

Haringey Council

This report contains exempt and non-exempt information. Exempt information is contained in Part B and is not for publication. The information is exempt under the following category (identified in the amended Schedule 12 A of the Local Government Act 1972).

Information relating to any individual and information which is likely to reveal the identity of an individual.

Background Papers

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

Delegated Decisions and Significant Action Forms.
Those marked with ♦ contain exempt information and are not available for public inspection.

The background papers are located at River Park House, 225 High Road, Wood Green, London N22 8HQ

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## DIRECTOR OF CYPS

**Significant decisions -** Delegated Action: September-November 2014

♦ denotes background papers are Exempt.

| No | Date approved by Director | Title | Decision |
|---|---|---|---|
| 1. | 19.9.2014 | Establishment of post of Children Support Practitioner | agreed |
| 2 | 14.10.14 | Establishment of Personal Budget Officer Integrated Services post | Recommendation for establishment of the post for one year approved |
| **3.** | 15.12.2014 | Integrated Service for SEN and Disabilities | Agreed restructure |

**Delegated Action**

| Type | Number |
|---|---|
| | |

Jon Abbey
Interim Director, Children's Services

6 January 2015

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