

NOTICE OF MEETING

CORPORATE COMMITTEE

Monday, 9th September, 2019, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Members: Councillors Isidoros Diakides (Chair), Mike Hakata (Vice-Chair), Peray Ahmet, Dawn Barnes, Patrick Berryman, Barbara Blake, Mahir Demir, Makbule Gunes, Liz Morris, Alessandra Rossetti, Daniel Stone and Noah Tucker

Co-optees/Non Voting Members:

Quorum: 3

1. FILMING AT MEETINGS

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

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

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

3. URGENT BUSINESS

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

4. DECLARATIONS OF INTEREST

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

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

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

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

5. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

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

6. MINUTES (PAGES 1 - 14)

To consider and agree the minutes of the meeting held on 25th July.

7. TREASURY MANAGEMENT UPDATE (PAGES 15 - 28)

8. ANNUAL SCHOOLS REPORT - 2018/19 (PAGES 29 - 38)

9. INTERNAL AUDIT PROGRESS REPORT 2019/20 - QUARTER 1 (PAGES 39 - 50)

10. COUNTER FRAUD UPDATE REPORT 2019/20 QUARTER 1 (PAGES 51 - 58)

11. NEW ITEMS OF URGENT BUSINESS

To consider any items admitted at item 3 above.

12. UPDATE ON THE ESTABLISHMENT OF A SUB-GROUP ON THE FUTURE OF HOUSING MANAGEMENT

To follow.

13. ANY OTHER BUSINESS

14. DATE AND TIME OF NEXT MEETING

2nd December

Philip Slawther, Principal Committee Co-ordinator
Tel – 020 8489 2957
Fax – 020 8881 5218
Email: philip.slawther2@haringey.gov.uk

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

Friday, 30 August 2019

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MINUTES OF THE MEETING OF THE CORPORATE COMMITTEE HELD ON THURSDAY, 25TH JULY, 2019, 7.30 pm

PRESENT:

**Councillors: Isidoros Diakides (Chair), Mike Hakata (Vice-Chair),
Peray Ahmet, Mahir Demir, Daniel Stone, Noah Tucker and Nick da Costa**

83. FILMING AT MEETINGS

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

84. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for absence were received from Cllr Morris, Cllr Rossetti, Cllr Barnes, Cllr Berryman and Cllr Blake.

Cllr Da Costa attended the meeting as a substitute.

85. URGENT BUSINESS

There were no items of Urgent Business.

86. DECLARATIONS OF INTEREST

There were no declarations of interest.

87. DEPUTATIONS / PETITIONS / PRESENTATIONS / QUESTIONS

None.

88. MINUTES

RESOLVED

That the minutes of the meetings of 26th March and 17th June were agreed as a correct record.

89. TREASURY MANAGEMENT OUTTURN 2018/19

The Committee received a report which provided an update on the Council's Treasury Management activities undertaken during the year to 31st March 2019 and the

performance achieved. The report was introduced by Thomas Skeen, Head of Pensions, Treasury and Chief Accountant as set out at pages 17-30. The following was noted in discussion of the report:

- a. In response to a question about LOBO loans, the Committee was advised that the Council had a policy to exercise its option to repay LOBOs if the lender increased the interest rates. Officers also advised that there had also been a recent amendment to the treasury policy, so that the Council would also repay the loans if and when was financially advantageous to do so.
- b. In response to further discussion around other local authorities that had repaid the loans, officers advised that most of those loans were to UK, rather than European, banks and had a significantly higher interest rate than the LOBO loans taken out by Haringey. The Committee sought further assurance around flexibility in the eventuality that interest rates spiked.
- c. In response to a question, officers confirmed that the Council was subject to a financial penalty for paying back the LOBO loans early.
- d. In relation to a question around whether the borrowing headroom had increased from last year, officers confirmed that the operational boundary had increased as a result of increased capital borrowing. Officers set out that the extent to which the Council could afford to increase borrowing was determined by whether or not it could afford to service the debt.

RESOLVED

- I. That Members noted the treasury management activity undertaken during the year to 31st March 2019 and the performance achieved.
- II. That Members noted that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

90. 2018/19 STATEMENT OF ACCOUNTS

The Committee received the Statement of Accounts for 2018/19 and a short cover report as set out on the agenda pack at pages 31-160. The Committee also received the BDO external audit report at appendix 1 of the report, which was set out in the addendum agenda pack. The report was introduced by Thomas Skeen, Head of Pensions, Treasury and Chief Accountant. Jon Warlow, Director Finance was also in attendance. Lee Lloyd-Thomas and Simiso Ngidi were also present on behalf of the Council's external auditors BDO. The following was noted in discussion of the 2018/19 Statement of Accounts:

- a. Officers set out that the compiling of the Annual Statement of Accounts had been brought forward last year to 31st July, which was an especially challenging timescale. The auditor advised that it was possible to meet these timescales, provided that there were no significant issues that arose.
- b. The Committee was advised that the accounts needed be adjusted to take account of the McCloud pension ruling, which was a recent court case that was found against the government and related to the ten-year window in which employees had guaranteed protection between a shortfall in final salary versus career average pensions. The ruling found the window to be age discriminatory and that the protection should be offered to all persons in receipt of public sector pensions. The Committee was advised that this resulted in a £6m liability for the Council and a £7m liability to the Pension Fund for the wider group (including HfH and Alexandra Palace).

- c. The auditor advised that an additional pension liability from the Lloyds ruling did not need to be reflected in the final accounts. However, officers advised that BDO had found an error in relation to Property, Plant and Equipment in relation to Highgate school as the square footage of the building had been incorrectly calculated, which resulted in an error in the schools valuation by around £9m.
- d. Officers advised that there was a reasonable possibility that the 31st July submission deadline would not be met, but assured the Committee that there was no particular impact on the Council for missing it and that many other authorities would also miss this deadline. The report requested delegated authority for the Chair and Section 151 Officer to agree any final changes to the report prior to its submission. Officers advised that they would bring an update report to the Committee meeting in September. **(Action: Thomas Skeen)**.
- e. BDO advised that the final audit report would be published along with the Final Statement of Accounts. The Committee was advised that the role of the auditor was to determine whether the accounts were materially true and fair. BDO advised that definition of materiality was that they were within 1.5% of the total spend of the group, which equated to around £16m. The McCloud pensions ruling took the Council up to the threshold and it was therefore necessary to amend the accounts as a result.
- f. In relation to the Highgate school issue, BDO highlighted the need to maintain an accurate data set and that getting the data from the valuer had been an issue. BDO also drew the Committee's attention to the fact that some of the Council's collection rates were getting better.
- g. The Committee was advised that overall, the auditor felt that the Council had a good grip on its savings plans and that the overspend of £8m was manageable in the short term, given the Council's reserve position. BDO acknowledged that there was slippage in the savings plans but suggested that the Council was in a better position than many other authorities and that there was no immediate risk of effective bankruptcy, as per Northamptonshire County Council.
- h. In response to questions about possible late publication of the report and a request for further information on the reasons behind this, BDO advised that the government had squeezed the audit timetable down to around 2 months. BDO suggested that there was only a limited number of auditors working within local government and around 400 local authorities that needed to be audited, all working to the same timeframe. In this context, it was noted that Haringey had a balance sheet of around £1.5 billion as well as billions in pensions liability and that this was an inherently time consuming undertaking.
- i. The Committee enquired as to what the collective response should be, as local authorities, and how could the Council respond. In response, officers advised that at a regional level, this was likely to be something taken forward by London Council's. The Head of Pensions, Treasury and Chief Accountant agreed to consider the issue further, to undertake a holistic review of the problem and to report back in September or a future meeting once the audit had been concluded **(Action: Thomas Skeen)**.
- j. The Director of Finance advised that he shared the Committee's concerns and acknowledged that the statutory timetable did not work, particularly as it now coincided with the audit timetable for the health sector as well. The Director of Finance reiterated that a number of authorities would fail to meet this deadline and speculated that perhaps this could be catalyst for a change of approach by the government. The Director of Finance set out that the authority had made

every effort to submit its annual accounts accurately and on time. The Director of Finance highlighted that the audit report had highlighted less misstatements than in last year's report and he suggested that this should reflect positively on the quality of work by officers.

- k. In response to a question around the agreed level of materiality, BDO advised that the audit report was drafted on an assumption that management would not correct every issue that was highlighted and that the rate had improved in recent years.
- l. In response to a question around changes to the government's valuation cycle, BDO advised that a valuation was undertaken to identify a drift in the value of the accounts. This was undertaken every three years. The Committee were advised that the government were pushing to recalibrate this to a four-year cycle to match its own and that discussions were continuing, but that the primary motivation seemed to be for the government to make savings.
- m. The Committee highlighted non-collection of receivables and questioned the £17.3m identified for PCNs. Members sought clarification about whether there was scope or increasing revenue through better debt collection arrangements in this area. In response, it was noted that unpaid parking tickets had to be kept in the system for a long time until they could be written off and that the figure of £17.3m did not represent unpaid tickets in 2018/19. In response to further questions, the Committee was advised that Haringey's position was in line with other local authorities on this issue.
- n. The Committee sought further reassurance around the Council's reserve position. In response, the Committee noted that the Council increased its reserve position last year from £84m to £90m. In the context of a circa £8m overspend, the Council was therefore not in a position whereby it would run out of money in the short term. BDO assured the Committee that the Council was in relatively good position overall.
- o. BDO set out that the role of the auditor was to make a determination about unlawful or unreasonable decisions, it was not their role to comment on policy and that Members were ultimately accountable to their electorate in this regard.
- p. In regards to value for money considerations, BDO advised that the audit process was less focused on this than it had been previously, due to cuts to the National Audit Office.
- q. In response on a question around outstanding actions, BDO advised that they anticipated having all of the relevant information within two to three weeks and were waiting for a response from Highgate school as well as Alexandra Palace's auditors to sign off their accounts.
- r. In response to an enquiry about the role of the auditor in reviewing the council's Annual Governance Statement, BDO advised that their role was limited to making a judgement about whether it contained any material inconsistencies and that they were happy with the Annual Governance Statement on that basis.

RESOLVED

- I. That the Committee considered the contents of the report and the further oral updates given at the meeting by BDO LLP.

- II. That the Committee approved the Statement of Accounts 2018/19, subject to any final changes required by the conclusion of the audit, being delegated to the Chief Financial Officer in consultation with the Chair.
- III. That the Committee gave the Chair of the Committee and Chief Finance Officer (S151 Officer) authority to sign the letter of representation to the Auditor.
- IV. That the Committee noted the Audit Findings Report of the auditors, BDO LLP, and approved the management responses in the BDO LLP action plan contained within that report.

91. INTRODUCTION OF A RISK BASED VERIFICATION (RBV) POLICY FOR HOUSING BENEFIT AND COUNCIL TAX REDUCTION CLAIMS

The Committee received a report which set out the introduction of a risk based verification policy to assist with the processing of Housing Benefit and Council Tax reduction claims, as part of the FOBO programme. It was noted that risk based verification related to the level of checks that were undertaken on a claim before benefit was awarded. Its primary purpose was to target resources to where fraud and error were more likely to occur. The report was introduced by Shergill Rupinder, FOBO Project Manager and Carla Segel, Head of Service Delivery for Corporate and Customer Services. The following was noted in discussion of the report.

- a. In response to a question around what was the impact on the local authority for errors in housing benefit payment, officers confirmed that there was a penalty levied by the DWP.
- b. In response to a question around the extent of that penalty, BDO advised that if the number of overpayments remained within 0.48% of the total amount of housing benefit paid out within that year there was no penalty and the DWP paid back 100% of the benefit payments to the Council. The penalty was then determined on a sliding scale from 0.48% upwards. Over 5.2% of the total value of overpayments, the Council would lose 100% of the value of the overpayments. The Committee noted that last year there was a significant penalty imposed, but this year was looking a lot better. BDO suggested, that at present, the Council was on track to remain under the 0.48% threshold.
- c. The Committee enquired whether the introduction of a risk based policy would necessitate requesting additional information from benefit claimants. In response, officers advised that around 40% of current claimants would be classified as low risk under the proposed model and that they would have to provide less information than they did currently. At present all claimants were effectively classified as high risk and it was explained that the new process would make dealing with low risk claims quicker and easier.
- d. In response to concerns about equalities safeguards and the potential for specific groups to be targeted, officers advised that no equalities concerns had arisen as part of the process of developing the EQIA and statutory equalities comments in the report.
- e. In response to a question around underpayments, officers advised that there were no changes to the current process and that any underpayment would be rectified and paid to the claimant in full.
- f. In response to a question, officers advised that the threshold for what constituted a low, medium and high risk claimant was set by the DWP.

- g. Officers confirmed that the proposed go-live date was in October, following Cabinet sign-off.

RESOLVED

That the Corporate Committee approved Haringey's Risk Based Verification Policy (as set out at Appendix B of the report) as the means by which the Council would process claims for Housing Benefit and Council Tax Reduction having regard to the Equalities Screening Tool (set out in Appendix C of the report).

92. COUNTER FRAUD UPDATE REPORT - QTR 4

The Committee received a report which provided an update on the work undertaken by the Counter Fraud team in the quarter ending 31st March 2019. The report was introduced by Minesh Jani, Head of Audit and Risk Management. The following was noted in discussion of the report:

- a. The Committee was advised that there were 117 fraudulent Right to Buy applications prevented in 2018/19 against a target of 80.
- b. In response to a question, officers were advised that comparative performance to the year before was broadly similar. However, the Counter Fraud team had been particularly proactive in carrying out money laundering checks to ensure that a number of fraudulent Right to Buy applications were refused.
- c. In relation to concerns about the impact on families from £180k saved on support and accommodation costs due to NRPF fraud, officers advised that the Fraud team were only involved in cases where legitimate instances of fraud were suspected. The Committee noted that the fraud team no longer sat in on NRPF interviews. In response to a request for further reassurances, the Head of Audit and Risk Management agreed to bring a paper back to the Committee that set out the procedures to provide assurance that the approach was reasonable and balanced. **(Action: Minesh Jani)**.
- d. The Committee requested that a future counter fraud update include further information in relation to the below areas of counter fraud work. In response, officers advised that a lot of work was being done pan-London to develop broader data sets.
 - Tenancies and Right to Buy (given the commitment to build 1000 new homes).
 - People who were at risk of coercion and exploitation and what could be done to prevent Right to Buy applications due to criminal exploitation.
 - How to prevent illegal subletting and what more could be done to recover profits from this. **(Action: Minesh Jani)**.

RESOLVED

- I. That Corporate Committee noted the counter fraud work completed up to 31st March.

93. ANNUAL INTERNAL AUDIT REPORT 2018/19

The Committee received a report which informed Members of the overall adequacy and effectiveness of the system of internal control and risk management operating in 2018/19 and presented a summary of the audit work undertaken. The report was

introduced by Minesh Jani, Head of Audit and Risk Management as set out in the agenda pack. The following was noted in discussion of the report.

- a. The Committee sought clarification around the Council's response to the DfE consultation proposal for a three year audit cycle for schools. In response, officers advised that a three year risk cycle wasn't unreasonable but the consultation response had set out that the government also needed to provide the resources to schools in order to undertake the audits.
- b. The Committee sought clarification around what was meant by audit consultancy. Officers advised that consultancy audits were advisory pieces of work undertaken by Internal Audit, in support of projects such as the FOBO programme.
- c. The Committee expressed concerns about audits being undertaken without the relevant Cabinet Member being informed and highlighted the audit of the Facilities Management contract being undertaken at the same time as APSE were undertaking something similar, as an example. In response, officers advised that the Audit Plan was agreed by the Committee at the start of year and the addition of the FM contract audit was requested subsequent to this. The Head of Audit and Risk Management set out that the APSE work undertaken was advisory.
- d. The Committee set out that further consideration needed to be given about the role of Audit in monitoring contract management. Officers acknowledged concerns about how best to manage this and advised that general contract management was on the audit plan for the current year.
- e. The Committee requested that the relevant Cabinet Member and the Cabinet Member with responsibility for insourcing be sent a copy of the audit report as a matter of course. The Chair queried whether this could be extended to notifying all Members, once an audit was completed. The Head of Audit and Risk Management agreed to give some further consideration as to how best this might be achieved, given the volume of audit reports produced each year. **(Action: Minesh Jani).**
- f. The Committee requested that the Head of Audit and Risk Management try to speed up the audit of the highways contract given that the retendering process was effectively in limbo. **(Action: Minesh Jani).**
- g. The Committee sought assurances about investigations into employee fraud for contractors, the role of Audit in this and what level of assurance was sought. In response, officers advised that the Anti-Fraud and Corruption Strategy set out that the level of assurance required was exactly the same as for employees who were employed directly by the Council. This was agreed as part of the contract specification process.

Clerks note: 21:50 - The Committee agreed to suspend Committee Standing Orders in order to allow the meeting to continue beyond 22:00.

RESOLVED

That the Corporate Committee noted the content of the Head of Audit and Risk Management's annual report and assurance statement for 2018/19.

94. DRAFT ANNUAL GOVERNANCE STATEMENT 2018/19 & REVISED LOCAL CODE OF CORPORATE GOVERNANCE

The Committee received a copy of draft Annual Governance Statement (AGS) 2018/19. In response to a question, BDO advised that there were satisfied that there were no material misstatements.

The Chair asked whether further assurance could be given in future. In response, the Head of Audit and Risk Management agreed to bring and updated AGS back to the December meeting and to include a note on its implementation to date. **(Action: Minesh Jani).**

RESOLVED

- I. The Corporate Committee reviewed and approved the draft 2018/19 AGS attached at Appendix A.
- II. That the Corporate Committee noted the approval timescale and processes for the draft 2018/19 AGS.
- III. That the Corporate Committee noted and approved the revised Local Code of Corporate Governance attached at Appendix B.

95. NEW ITEMS OF URGENT BUSINESS

N/A

96. ANY OTHER BUSINESS

The Chair advised that he was looking to set up an advisory sub-group to Corporate Committee to look into the future of housing management, including the future role of the ALMO. The Chair advised that it would be cross-party and the intention was for the sub-group to make recommendations to Cabinet.

The Legal Advisor to the Committee advised that under the Local Government Act 1972, there was provision to establish sub-committees, however in order to do so it had to be linked to the Committee's terms of reference. Any sub-committee would also be subject to access to information rules. The Legal Advisor set out that there was also an alternative possibility to establish a Member working group to look at this issue. The Chair advised that he was speaking to officers outside of the meeting about how to take this issue forwards, but that in principle it had been endorsed by the Housing and Regeneration Scrutiny Panel, as well as the housing spokesperson for the Liberal Democrats. The Chair advised that a report would come to the next meeting of the Committee which would set out the terms of reference.

The Chair asked the Committee to endorse, in principle, the setting up of a body to examine the future of housing management. Members of the Committee raised concerns about agreeing to this without a terms of reference or a scoping document. The Chair acknowledged these concerns and cautioned that the group would only have an advisory role. The Committee agreed, in principle, to endorse the setting up of a body to examine the future of housing management, subject to the agreement of satisfactory terms of reference.

97. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded from the remainder of the meeting as the items below contain exempt information, as defined under Paragraph 3 Part 1, Schedule 12A of the Local Government Act 1972, in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

98. INTRODUCTION OF A RISK BASED VERIFICATION (RBV) POLICY FOR HOUSING BENEFIT AND COUNCIL TAX REDUCTION CLAIMS

The Committee noted the exempt section of the Risk Based Verification policy.

99. NEW ITEMS OF EXEMPT URGENT BUSINESS

N/A

100. DATE AND TIME OF NEXT MEETING

The date of the next meeting was noted as 9th September.

CHAIR: Councillor Isidoros Diakides

Signed by Chair

Date

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**Corporate Committee
Action Tracker**

Mtg. Date	Action	Response	Who by	Completed
25 th July	Officers advised that they would bring an update report on the Final Statement of Accounts to the Committee meeting in September.	Report will come back to Committee in December.	Thomas Skeen	Scheduled to a future meeting.
25 th July	The Committee asked officers to consider how the Council should respond to the unfeasible timetable set by government for submitting final accounts. The Head of Pensions, Treasury and Chief Accountant agreed to consider the issue further, and to report back in September or a future meeting once the audit had been concluded	Scheduled to come to the Committee in September.	Thomas Skeen	Scheduled to a future meeting
25 th July	The Head of Audit and Risk Management agreed to bring a paper back to the Committee that set out the NRPF process and provides an assurance that the approach is reasonable and balanced.	A paper will be brought to the December meeting of the committee.	Minesh Jani	Scheduled to a future meeting
25 th July	The Committee requested further information in relation to Counter Fraud work: <ul style="list-style-type: none"> • Tenancies and Right to Buy (given the commitment to build 1000 new homes by 2022). • People who were at risk of coercion and exploitation and what could be done to prevent Right to Buy applications due to criminal exploitation. • How to prevent illegal subletting and what more can be done to recover profits from this 	Please refer to the anti-fraud update report in the main agenda and the Head of Audit and Risk Management will provide a verbal update on the checks around Right to Buy.	Minesh Jani	Completed
25 th July	The Committee requested that the relevant Cabinet Member and the Cabinet Member with responsibility for insourcing be sent a copy of the audit report as a matter of course	Head of Audit and Risk Management is giving this some further consideration as to how best this might be achieved, given the volume of audit reports produced each year.	Minesh Jani	Ongoing

25 th July	The Committee requested that the audit of the highways contract be prioritised.	This audit has been programmed for quarter 3.	Minesh Jani	Completed
25 th July	The Head of Audit and Risk Management agreed to bring an updated AGS back to the December meeting and to include a note on its implementation to date.	Scheduled to come back to December	Minesh Jani	Scheduled to a future meeting
17 th June	The Committee also requested that an independent assessment be undertaken into reviews of suitability to ensure that HfH were on top of this issue and that the service continued to monitor these cases going forward.	See below comment. HfH are awaiting the work of Internal Audit before making any substantive changes.	Sean McLaughlin	Ongoing
17 th June	The Chair requested that a follow up report come back to the Committee. The Chair asked for Internal Audit to work with HfH to review the organisational issues and put in place an audit process and action plan for monitoring the issue. The Head of Audit and Risk Management to speak to the MD HfH about putting this in place and bringing a follow-up report back to Corporate Committee - suggested that this would likely be in 6 months' time	Internal Audit is now preparing the detailed scope of the work that is required in order to review the two critical issues in this Ombudsman report: - The effectiveness of the process for considering reviews of the suitability of temporary accommodation - Repairs in temporary accommodation including the condition of units at the start of the letting, and the process for reporting and delivering repairs during the letting.	Minesh Jani/Sean McLaughlin	Ongoing
26 th March	Committee requested that officers from the Commissioning service attend a subsequent meeting of the Committee and provide an update on social care accruals.	Officers have been asked to bring back a report to December - awaiting confirmation.	Clerk	Ongoing
26 th March	Chair agreed to consider how best to accommodate request for year on year figures for redundancy settlements for five years and will speak to Chairs of Pensions Committee and OSC.	Chair will pitch this up with Chairs of Pensions and OSC.	Chair	Ongoing
5 th February	The Committee requested a follow up report, at the halfway point in next year's collection process, to provide an update on efforts to reduce the backlog of overpayments as well as some further benchmarking.	Agreed – follow up report to come back in December 2019.	Amelia Hadjimichael	Scheduled to a future meeting.
3rd	Update from the AD Schools and Learning on	Officers have been chased for a response.	Eveleen	Ongoing

December	the audit process for academy schools and on the analysis of which schools did not attend audit training and any correlation with those receiving poor audit scores.		Riordan/Clerk	
3rd December	The Committee raised concerns with a number of areas of building compliance set out in the Annual Report and commented that there did not seem to be details of corrective action or risk profile. A report back to the Committee was requested, suggested that it would be in 6 months' time.	The Property Compliance Board is meeting regularly and has instituted a common reporting system across all Council property for statutory compliance focusing on the highest risk areas (fire, electrical safety, gas, water/legionella and asbestos management). At present this relies on manual production of reports against a range of KPI's. We are looking at systems to automate the production of reports. These KPI's consider the number of outstanding actions raised in statutory tests and inspections.	Andrew Meek	Ongoing

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Report for: Corporate Committee 9 September 2019

Item number:

Title: Treasury Management Update Report

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions, Treasury & Chief Accountant
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. This report updates the Committee on the Council's treasury management activities and performance in the three months to 30th June 2019 in accordance with the CIPFA Treasury Management Code of Practice.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That members note the Treasury Management activity undertaken during the three months to 30th June 2019 and the performance achieved.
- 3.2. That members note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

4. Reason for Decision

- 4.1. None.

5. Other options considered

- 5.1. None.

6. Background information

- 6.1. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement. CIPFA has defined Treasury management as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 6.2. The Code recommends that members are informed of treasury management activities at least twice a year. Formulation of treasury policy, strategy and activity is delegated to the Corporate Committee and this Committee receives reports quarterly.
- 6.3. However, overall responsibility for treasury management remains with full Council and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2018/19 on 26 February 2018. The Corporate Committee is responsible for monitoring treasury management activity and this is achieved through the receipt of quarterly reports. This report forms the 1st quarterly monitoring report for 2018/19.
- 6.4. Government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:

Security - Liquidity - Yield

The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds. However, no treasury activity is without risk and the effective identification and management of risk are integral to the Council's treasury management activities.

7. Contribution to Strategic Outcomes

- 7.1. None.

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

Finance and Procurement

8.1. Finance comments are contained within the body of the report.

Legal

8.2. The contents and recommendation of this report are in accordance the Treasury Management Strategy Statement and consistent with legislation governing the financial affairs of the Council. In considering the report Members must take into account the expert financial advice available to it and any further oral advice given at the meeting of the Committee.

Equalities

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

Appendix 1 – Q1 2019/20 Treasury Update Report

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

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Treasury Management Update Report Q1 2019/20

Introduction

The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

The Authority's treasury management strategy for 2019/20 was approved at a meeting of full Council on 25 February 2019. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 25 February 2019.

External Context (provided by the Council's treasury management advisor, Arlingclose)

Economic background: UK Consumer Price Inflation (CPI) for June 2019 was 2.0% year/year, coming in at consensus and meeting the Bank of England's inflation target. The most recent labour market data for the three months to May 2019 showed the unemployment rate remain at a low of 3.8% while the employment rate of 76.0% dipped by 0.1%, the first quarterly decrease since June to August 2018. The 3-month average annual growth rate for pay excluding bonuses was 3.6% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.7%.

There was a rise in quarterly GDP growth in the first calendar quarter for 2019 to 0.5%, from 0.2% in Q4 2018 with stockpiling ahead of the (now delayed) 29th March Brexit distorting data. Production and construction registered positive output and growth, however at the end of June 2019, seasonally adjusted Markit UK Construction PMI (Purchasing Manager's Index) logged a record-low figure of 43.1, suggesting that construction has suffered a largest contraction in output since April 2009. GDP growth was 1.8% year/year, however with the service sector slowing and a weaker global backdrop the outlook was for subdued growth.

Politics has been a big driver over the last quarter. The 29th March Brexit deadline was extended to 12th April and then to 31st October 2019: there is still no clear consensus as to the terms on which the UK will leave the EU. Theresa May announced her resignation as Prime Minister and leader of the Conservative Party in May and the leadership contest for her successor is ongoing with Boris Johnson the current favourite.

The struggling British high street has continued to dominate headlines with the Arcadia group being saved from collapse in June following an agreement for rent reductions from landlords. The car industry has also struggled in the UK and beyond with announcements of cuts to 12,000 jobs across Europe by Ford.

With the deterioration in the wider economic environment, compounded by Brexit-related uncertainty and the risk of a no-deal Brexit still alive, the speech by Bank of England Governor Mark Carney in early July signalled a major shift to the Bank's rhetoric and increased the possibility of interest rate cuts, rather the Bank's erstwhile 'gradual and limited' rate hike guidance.

Globally, tensions between the US and China became progressively more fraught with US President Donald Trump threatening to more than double tariffs on some Chinese goods. There were also moves in both the US and UK to block or restrict access to markets by Chinese telecoms giant Huawei. Amid low inflation and a weak economy in the Eurozone Mario Draghi signalled in late June that another round of stimulus (QE) may be likely. The US and EU have also carved the path for interest rates to be cut in the future.

Financial markets: 2018 was a year to forget in terms of performance of riskier asset classes, most notably equities. However, since the beginning of 2019 markets have rallied, and the FTSE 100 is up over 10% in pure price terms for the first 6 months of the calendar year. Nearly all of these gains were realised in the last quarter of FY 2018/19, as Q1 2019/20 has only seen a modest increase of around 2%.

Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. Gilt yields fell - the 5-year benchmark gilt yield falling to 0.63% at the end of June from 0.75% at the start of April. There were falls in the 10-year and 20-year gilts over the same period dropping from 1.00% to 0.83% and from 1.47% to 1.35% respectively. Money markets rates stabilised with 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.60%, 0.68% and 0.92% respectively over the period.

Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth is not just a UK phenomenon but a global risk. The US yield curve inverted (10-year Treasury yields were lower than US 3-month money market rates) in March 2019 and this relationship remained and broadened throughout the period. History has shown that a recession hasn't been far behind a yield curve inversion. Germany sold 10-year Bunds at -0.24% in June, the lowest yield on record. Bund yields had been trading at record lows in the secondary market for some time, however the negative yield in the primary market suggests that if investors were to hold until maturity, they are guaranteed to sustain a loss - highlighting the uncertain outlook for Europe's economy.

Credit background: Credit Default Swap (CDS) spreads fell slightly across the board during the quarter, continuing to remain low in historical terms. After hitting around 97bps at the start of the period, the spread on non-ringfenced bank NatWest Markets plc fell back to around 82bps at the end of June, while for the ringfenced entity, National Westminster Bank plc, the spread fell from 67bps to 58bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 28 and 59bps at the end of the period.

S&P upgraded RBS Group and its subsidiaries, including National Westminster Bank PLC, Natwest Markets PLC, The Royal Bank of Scotland and Ulster Bank Ltd. S&P raised the long-term issuer ratings by one notch due to RBS Group's strengthened credit fundamentals following a long period of restructuring. S&P believes the group and its subsidiaries have enhanced their capacity to manage the current UK political and economic uncertainties.

There were minimal other credit rating changes during the period. Moody's revised the outlook on Barclays Bank PLC to positive from stable to reflect the bank's progress in its restructuring plans, including de-risking the balance sheet, improving its risk profile and profitability and resolving litigation issues in the US. Moody's also revised the outlook to stable from negative for Goldman Sachs International Bank, reflecting a slowdown in loan growth as well as a stronger revenue growth for sales and trading.

Local Context

On 31st March 2019, the Authority had borrowing of £388.8m, and investments of £30.6m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.19 Actual £m
General Fund CFR	385.0
HRA CFR	249.8
Total CFR	634.8
Less: *Other debt liabilities	-34.7
Borrowing CFR - comprised of:	600.1
- External borrowing	388.8
- Internal borrowing	211.3

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 30th June 2019 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.19 Balance £m	Movement £m	30.06.19 Balance £m	30.06.19 Rate %
Long-term borrowing	365.8	40.0	405.8	4.14
Short-term borrowing	23.0	-23.0	0.0	0.00
Total borrowing	388.8	17.0	405.8	3.94
Long-term investments	0.0	0.0	0.0	0.00
Short-term investments	15.0	-5.0	10.0	1.07
Cash and cash equivalents	15.6	25.7	41.3	0.66
Total investments	30.6	20.7	51.3	0.74
Net borrowing	358.1		354.5	

Borrowing Strategy during the period

At 30th June 2019 the Authority held £405.8m of loans, an increase of £17.0m from 31st March 2019, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30th June are summarised in Table 3 below.

Table 3: Borrowing Position

	31.03.19	Net Movement	30.06.19	30.06.19	30.06.19
	Balance	£m	Balance	Weighted Average	Weighted Average
	£m		£m	Rate	Maturity
				%	(years)
Public Works Loan Board	240.8	40.0	280.8	3.60	28.43
Banks (LOBO)	125.0	0.0	125.0	4.72	41.19
Banks (fixed-term)	0.0	0.0	0.0	0.00	0
Local authorities (long-term)	0.0	0.0	0.0	0.00	0
Local authorities (short-term)	23.0	-23.0	0.0	0.00	0
Total borrowing	388.8	17.0	405.8	3.94	32.36

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

As the Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement, the raised £40m of long term fixed rate loans from the PWLB in the first quarter of 2019/20, at an average rate of 2.12% which will provide longer-term certainty and stability to the debt portfolio. This borrowing was taken to fund the Council's growing underlying need to borrow from the capital programme, in conjunction with considerations around interest rates.

Going forwards into future years, the Council has a significant capital programme, and a large proportion of this will be financed by borrowing, which the Council will have to undertake in coming years. The Council's treasury advisor, Arlingclose undertakes weekly 'cost of carry' analysis to inform the Council about whether it is financially beneficial to undertake borrowing now or to delay this for set time periods: given PWLB interest rate forecasts. Any borrowing which is taken to prior to capital expenditure taking place, and reducing the extent of the Council's internal borrowing, would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing, creating an immediate cost for revenue budgets.

LOBO loans: The Authority continues to hold £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the period.

Treasury Investment Activity

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £24.9 and £59.8 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.03.19	Net	30.06.19	30.06.19	30.06.19
	Balance	Movement	Balance	Rate of	Weighted
	£m	£m	£m	Return	Average
				%	Maturity
					days
Banks & building societies (unsecured)	0.0	0.0	0.0	0.00	0.0
Money Market Funds	0.0	11.3	11.3	0.73	1.0
UK Government:					
- Local Authorities	15.0	-5.0	10.0	1.07	329.0
- Debt Management Office	15.6	14.4	30.0	0.63	8.0
Total investments	30.6	20.7	51.3	0.74	69.1

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

The table below shows counterparty credit quality as measured by credit ratings on the final day of each quarter during the year. The table also shows the percentage of the in-house investment portfolio exposed to bail-in risk. Bail-in is the response to the government bail-outs in the global financial crisis, when a number of banks failed and received government bail-outs in 2008. Under bail-in, unsecured deposits made with certain financial institutions would be at risk, should the institution fail, and investors would lose a portion of their invested funds. The below table shows a snapshot at a point in time, and movements in the figures do not reflect changes in policy or strategy, but are indicative of the Council's cashflows on that particular date.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking - Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2019	3.37	AA	0%	122	0.77
30.06.2019	3.59	AA-	22%	51	0.74
Similar LAs	4.52	A+	45%	115	1.23
All LAs	4.31	AA-	44%	28	1.37

Readiness for Brexit: The scheduled leave date for the UK to leave the EU is now 31st October 2019 and there remains little political clarity as to whether a deal will be agreed by this date, the potential of a no-deal Brexit has not been ruled out. Particularly as this new leave date approaches the Authority will ensure that sufficient funds are invested with the Debt Management Account Deposit Facility (DMADF) in order to have liquid investments to be able to access cash on a daily basis.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. Further details of the Authority's non-treasury investments are given in the Council's Statement of Accounts and Treasury Management Strategy Statement.

Treasury Performance

Treasury Investments generated an average rate of return of 0.74% in the first three quarters of the year. The Council's treasury investment income for the year is forecast at was £216k against a budget of £136.5k.

Borrowing costs for 2019/20 are forecast in line with budget at Q1, at £15.3m (£10.6m HRA, £4.7m General Fund). In prior years these budgets have underspent due to a number of factors, including: the current lower interest rate environment reducing interest costs for the Council, and delays in the capital programme's delivery. Should slippage in the Council's capital programme occur, it will reduce the borrowing requirement, and reduce this forecast.

Compliance

The Director of Finance reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

The council's total borrowing limits are set out in the table below. 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 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.

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 authorised limit and operational boundary do not therefore, set out absolute limits of what the Council expects to borrow in the year.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	Q1 Maximum	30.6.19 Actual	2019/20 Operational Boundary	2019/20 Authorised Limit	Complied? Yes/No
Borrowing	405.8m	405.8m	702.4m	752.4m	Yes
PFI and Finance Leases	34.7m	34.7m	36.3m	39.9m	Yes
Total debt	440.5m	440.5m	738.7m	792.3m	Yes

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure, however, Haringey's debt remained well below this limit at all points in the quarter.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

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

	30.6.19 Actual	2019/20 Target	Complied?
Portfolio average credit	3.59 (AA-)	7.00 (A-)	Yes

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	30.6.19 Actual	2019/20 Target	Complied?
Total cash available within 3 months	£41.3m	£10.0m	Yes

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	30.6.19 Actual	2019/20 Limit	Complied?
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	0.5m	£1m	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	-0.5m	£1m	Yes

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Maturity structure of borrowing	Lower Limit	Upper Limit	30.6.19
under 12 months	0	50%	20.6%
12 months & within 2 years	0	40%	1.7%
2 years & within 5 years	0	40%	19.6%
5 years & within 10 years	0	40%	0.5%
10 yrs & within 20 yrs	0	40%	11.6%
20 yrs & within 30 yrs	0	40%	11.1%
30 yrs & within 40 yrs	0	50%	17.7%
40 yrs & within 50 yrs	0	50%	17.2%
50 yrs & above	0	40%	0.0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Total short term borrowing: the Council has used short term borrowing (under 1 year in duration) from other local authorities extensively in recent years, as an alternative to longer term borrowing from PWLB, due to the lower interest rates, and corresponding revenue savings. Short term borrowing exposes the Council to refinancing risk: the risk that interest rates rise quickly over a short period of time, and are at significantly higher rates when loans mature and new borrowing has to be raised. With this in mind, the Authority has set a limit on the total amount of short term local authority borrowing, as a proportion of all borrowing.

Short term borrowing	Limit	30.06.19 Actual	Complied?
Upper limit on short term borrowing from other local authorities as a percentage of total borrowing	30%	0%	Yes

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2019/20	2020/21	2021/22
Actual principal invested beyond year end	0.0m	0.0m	0.0m
Limit on principal invested beyond year end	£10.0m	£10.0m	£10.0m
Complied?	Yes	Yes	Yes

Outlook for the remainder of 2019/20

Having increased interest rates by 0.25% in November 2018 to 0.75%, the Bank of England's Monetary Policy Committee (MPC) is now expected to maintain Bank Rate at this level for the foreseeable future. There are, however, upside and downside risks to this forecast, dependant on Brexit outcomes and the evolution of the global economy.

The resignation of Theresa May added further to the political uncertainty. Boris Johnson replaced her as Prime Minister and appears to favour exiting the EU on 31st October. It is unlikely the UK will be able to negotiate a different withdrawal deal before the deadline.

With the downside risks to the UK economy growing and little likelihood of current global trade tensions being resolved imminently and global growth recovering soon thereafter, our treasury advisor Arlingclose's central forecast is for that the Bank of England's MPC will maintain Bank Rate at 0.75% but will stand ready to cut rates should the Brexit process engender more uncertainty for business and consumer confidence and for economic activity.

	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.50	0.50
Arlingclose Central Case	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	0.00	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

Gilt yields have fallen to recent lows. Resolution of global political uncertainty would see yields rise but volatility arising from both economic and political events continue to offer longer-term borrowing opportunities for those clients looking to lock in some interest rate certainty.

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Report for: Corporate Committee – 9 September 2019

Title: Annual Schools Report – 2018/19

Report

authorised by : Assistant Director of Corporate Governance

Lead Officer: Minesh Jani, Head of Audit and Risk Management

Tel: 020 8489 5973

Email: minesh.jani@haringey.gov.uk

Ward(s) affected: N/A

**Report for Key/
Non Key Decision: Information**

1. Describe the issue under consideration

1.1 This report advises the Corporate Committee of the outcomes of the 2018/19 schools audit programme and of the follow up audits carried out in 2018/19 by Mazars.

2. Cabinet member introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the report.

4. Reasons for decision

4.1 The Corporate Committee is responsible for monitoring the adequacy and effectiveness of internal controls. The Committee receives regular reports highlighting findings from audits, this report provides an overview of findings arising from the audit of schools in 2018/19 by Mazars and provides the Committee with an opportunity to identify thematic issues that may impact on the governance at schools.

5. Alternative options considered

5.1 Not applicable.

6. Background information

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

7. Contribution to strategic outcomes

7.1 The work of the internal audit team provides independent assurance over the effectiveness of the control environment at schools. The primary responsibility for governance of schools rests with the Governing Body with oversight from the local authority over maintained schools. The work of the internal audit team is an important element of how the local authority can demonstrate it has discharged its statutory responsibility.

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

8.1 Finance and Procurement

The findings contained in this report, notwithstanding an improvement in the percentage of schools audited in 18/19 returning a “Substantial” assurance and associated decrease in the number of Level 1 recommendations, continue to provide cause for concern.

Four schools returned an inadequate assurance outcome (as noted in the Annual Governance Statement). In addition, basic financial controls over budget setting and monitoring, expenditure and accounting records were often found to be weak or non-existent. This puts our schools at greater risk of overspending, fraud, error and financial loss. In the current financial climate, with sustained pressure on school budgets, the need to achieve value for money and demonstrate strong financial management are paramount to ensure the financial sustainability of our schools.

A new schools finance adviser on a fixed term contract is being proposed, subject to final funding confirmation from Schools Forum. This post would form part of the School Finance team to support schools in financial difficulty. The schools finance adviser would provide strategic finance support to the school’s senior leadership team and identify any weakness earlier on before a school goes into a deficit position or help deficit schools with a robust business plan to turn the position around within a specific time period. The impact of this new resource would be monitored via the quarterly finance reports as well as through future audits. This additional focus on Schools finances, along with the programme of training workshops, should help address the issues raised above.

8.2 Legal

The Council’s Assistant Director of Corporate Governance has been consulted in the preparation of this report and has no comments.

8.3 Equality

The Council has a public sector equality duty under the Equality Act (2010) to have due regard to:

- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;
- advance equality of opportunity between people who share those protected characteristics and people who do not;
- foster good relations between people who share those characteristics and people who do not.

9. Use of Appendices

None

10. Local Government (Access to Information) Act 1985

Not applicable.

11. Background

11.1 Internal Audit undertakes a programme of school audit reviews to ensure that schools are complying with the requirements of the Schools Finance Manual, issued in 2007; and to confirm the risks associated with the key financial and non-financial processes are appropriately managed.

11.2 Internal audit is not required to audit the School Financial Value Standard (SFVS), but the audit programme does check that the SFVS has been completed and whether it aligns with the audit findings. The programme of routine audit work should assist schools in providing assurance to Governing Bodies for the SFVS.

12. Feedback on 2018/19 audit work

12.1 This report:

- Summarises the overall outcomes and assurance levels provided to individual schools from 2015/16 to 2018/19;
- Provides information on the results of the formal follow up programme;
- Provides a summary of assurance and recommendations made; and
- Highlights some of the common issues relating to non-compliance with the Schools Finance Manual and good control where recommendations were made.

12.2 Table 1 below summarises the overall outcomes and assurance ratings for the previous four financial years of all internal audits completed.

Table 1 – Summary of assurance ratings provided 2015/16 to 2018/19

	Number of audits planned	Substantial Rating assurance	Limited Assurance rating	Nil Assurance rating
2015/16				
Primary Schools (incl. nursery/special)	12	8	4	0
Secondary Schools	1	1	0	0
Sub-total	13	9	4	0
2016/17				
Primary Schools (incl. nursery/special)	21	6	12	3
Secondary Schools	3	2	1	0
Sub-total	24	8	13	3
2017/18				
Primary Schools (incl. nursery/special)	19	10	7	2
Secondary Schools	1	1	0	0
Sub-total	20	11	7	2
2018/19				
Primary Schools (incl. nursery/special)	11	7	4	0
Secondary Schools	1	1	0	0
Sub-total	12	8	4	0
Total	69	36	28	5

12.4 The table above shows 67% of schools audited in 2018/19 returned substantial assurance ratings. While this is an improvement on previous year where 55% of the schools audited were assigned “Substantial” assurance, there remains a concern around level of unsatisfactory level of assurance. The issue has been included in the statutory Annual Governance Statement, which was reported to the Corporate Committee on 25 July 2019 as part of the Council’s annual accounts.

12.3 School audits originally showed significant weaknesses across all schools in 2016/17. While 2017/18 and 2018/19 has seen a fall in the number of primary and secondary schools assigned limited or nil assurance ratings, the internal control environment is still not at a level where we can see performance as satisfactory and risks are being robustly managed across all schools.

12.5 For the school audits completed in 2018/19, **a total of 135 recommendations** were raised. Table 2 below summarises the recommendations made and groups them into the areas, which are contained within the individual audit reports issued to schools.

Table 2 – Overall assessment of control and recommendations raised

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Management organisation	Green	Amber	0	20	20
School improvement plan & OFSTED inspections	Green	Amber	0	4	0
Budget setting, monitoring & control	Green	Amber	1	10	2
Staffing	Green	Amber	0	2	4
Expenditure & accounting records	Green	Red	4	17	3
Asset Management & Inventory Records	Green	Amber	0	12	20
School unofficial fund	Green	Green	0	1	2
Income & Lettings	Green	Amber	0	5	4
School meals	Green	Green	0	1	0
Data Protection	Green	Green	0	1	2
Total			5	73	57

12.6 The areas reported as 'Green' under '**Adequacy of Controls**' indicate that, overall, schools have identified appropriate controls which, if put into practice, would be adequate to manage the risks for that area.

12.6 The column headed '**Effectiveness of Controls**' is an assessment of whether the controls that have been put in place are working as intended. We found that controls over expenditure were not working well at many schools, so we have rated this as red. Other areas showed some weakness in control while controls over unofficial funds, school meals and data protection were generally working well.

12.7 Overall, the proportion of schools receiving 'limited' and 'nil' assurance has decreased, which is reflected in the fewer numbers of recommendations raised. The number of Priority 1 recommendations – those which we identify as fundamental control weaknesses, have decreased significantly from 2017/18 which is a pleasing development. A summary of the outcomes and the details of Priority 1, 2 and 3 recommendations raised is shown in Appendix A.

12.8 Appendix A also shows that significant areas of non-compliance with the Schools Finance Manual found in 2017/18 were within the key financial areas reviewed by audit: **management organisation; budget setting, monitoring and control; staffing; expenditure and accounting records; and asset management**. These are the same areas as last year.

12.9 Serious weaknesses identified in these key financial processes and areas indicate that basic financial controls were weak or non-existent, which puts the school at a greater risk of fraud and poor long term financial stability. Key findings in 2018/19 included the following:

Non-compliance with financial regulations:

- No or insufficient numbers of written quotations or tenders obtained or retained for high value expenditure; high value expenditure not approved by Governing Body; purchase orders not raised for high value/routine expenditure; no valid invoice or receipts to support payments; bank mandate out of date; bank reconciliations not completed; debt recovery processes not taking place; budget monitoring not undertaken; VAT returns not submitted regularly.

Items missing or non-existent:

- Asset/inventory register (regular checks not completed); Policies not in place e.g. lettings; Register of Business Interests in that not all Governors and staff with financial responsibility completed an entry; incomplete; No Statement of Acceptance (Contract) for new staff; overtime claim forms do not state reason for hours worked. Recruitment checks not undertaken in a timely fashion.

Non-ratification/minuting:

- Budget not approved by Governors: use of Pupil Premium not signed off by Governing Body; no sign off of Governing Body and Committee minutes; SFVS self-assessment not approved; results of inventory and asset management reviews no approved.

13. Follow up programme for 2017/18 audits

13.1 Internal Audit completed formal follow up audits of all school audits, which were undertaken in 2017/18 that received limited assurance or better. School receiving No assurance to subject to a revisit and full audit. Appendix B sets out the overall results of the follow up work completed. The follow up visits were all arranged in advance with the individual schools and took account of the deadlines confirmed by schools for the implementation of recommendations.

13.2 The Committee will note that of the 169 original recommendations, only 122 (72%) had been fully implemented at the time of the follow up visit. This is an improvement on what we reported last year (58%). This does, however, include 28 significant issues which were raised as priority 2 recommendations which have not been fully addressed. This will lead to increased risk at our schools of fraud, error or inappropriate practice going uncorrected.

14. Training for Schools and Governors

14.1 In addition to circulating the school audit test programme, workshop sessions have been provided for school staff (finance staff, bursars, and head teachers) over the last four financial years to further assist schools in identifying key risk areas and control processes.

14.2 A workshop session was again offered to all schools with audits planned during 2019/20 as well as where key staff have changed in the last twelve months; the session was held on 7 March 2019 and some schools due to be audited in 2019/20 attended the session. In addition, four further training sessions were provided to bursars and school business managers, head teachers, governors and other members of staff.

14.3 Training sessions on audit and risk management, covering governor roles and responsibilities in relation to audit and risk management, as well as providing advice and guidance on key risk/control areas were provided as part of the annual governor training package. These training sessions are offered every academic year.

15. Internal Audit schools audit and follow up programme 2019/20

15.1 Internal Audit has started the 2019/20 programme of school audit visits; and all schools have been contacted and agreed dates for their respective audit visits.

15.2 Internal Audit will also arrange to follow up the 2018/19 audit work and recommendations. Any schools where high priority recommendations (Priority 1) remain outstanding may be included in the 2020/21 school audit programme for further review.

Appendix A

Outcomes and recommendations raised for 2018/19 school audits

School	Type	Assurance	Recommendations Raised			Total
			Priority 1	Priority 2	Priority 3	
Chestnuts	Primary	Limited	0	9	6	15
Devonshire Hill	Primary	Substantial	0	1	2	3
Earlham	Primary	Substantial	0	3	0	3
Earlsmead	Primary	Substantial	0	3	2	5
Highgate	Primary	Substantial	0	4	8	12
Risley Avenue	Primary	Limited	1	15	5	21
Rowland Hill	Nursery	Substantial	0	1	5	6
South Harringay	Infant	Substantial	0	6	4	10
St Francis de Sales	Infant & Junior	Substantial	0	3	5	8
St Ignatius	Primary	Limited	3	9	3	15
St James C of E	Primary	Limited	1	12	4	17
The Willow	Primary	Substantial	0	2	6	8
Primary & Special Sub-total			5	68	50	123
Park View	Secondary	Substantial	0	5	7	12
Secondary Sub-total			0	5	7	12
Total			5	73	57	135

The results of internal audit's follow-up work on the 2017/18 school audits

Follow up of 2017/18 audits	Type	Assurance	Recommendations raised				Recommendations Implemented				Partly Impl.	N/Accepted	Not Impl.	N/A	Priority 1 O/S	Unable to Verify
			Priority 1	Priority 2	Priority 3	Total	Priority 1	Priority 2	Priority 3	Total						
School										Total	Total	Total	Total	Total	Total	Total
Alexandra	Primary	Substantial	0	4	4	8	0	3	3	6	1	1	0	0	0	0
Coldfall	Primary	Substantial	0	4	0	4	0	3	0	3	0	1	0	0	0	0
Bruce Grove	Primary	Limited	3	9	5	17	3	9	3	15	2	0	0	0	0	0
Crowland	Primary	Limited	3	14	1	18	1	9	1	11	6	0	0	1	0	0
St Marys CE	Primary	Substantial	0	6	1	7	0	5	0	5	0	1	0	0	0	1
Bounds Green	Junior	Substantial	0	0	4	4	0	0	3	3	1	0	0	0	0	0
Tiverton	Primary	Substantial	0	7	2	9	0	7	2	9	0	0	0	0	0	0
Lancasterian	Primary	Limited	0	10	4	14	0	8	4	12	1	0	1	0	0	0
Rhodes Avenue	Primary	Substantial	0	4	2	6	0	4	2	6	0	0	0	0	0	0
Rokesly Infants	Infants	Substantial	0	5	5	10	0	4	2	6	3	0	0	0	0	1
St. Martin of Porres Catholic	Primary	Substantial	0	6	2	8	0	2	1	3	4	0	0	0	0	1
The Mulberry	Primary	Substantial	0	4	0	4	0	4	0	4	0	0	0	0	0	0
Welbourne	Primary	Substantial	0	6	7	13	0	4	6	10	2	0	1	0	0	0
Ferry Lane	Primary	Limited	1	6	4	11	1	5	4	10	0	0	1	0	0	0
St Peter in Chains	Infant	Limited	0	9	1	10	0	4	1	5	2	0	1	0	0	2
Stroud Green	Primary	Limited	4	7	4	15	2	4	2	8	6	0	1	0	0	0
St Pauls Roman Catholic	Primary	Substantial	0	5	2	7	0	3	1	4	3	0	0	0	0	0
Primary/Special Total			11	106	48	165	7	78	35	120	31	3	5	1	0	5
Hornsey School for Girls	Secondary	Substantial	1	3	0	4	0	2	0	2	2	0	0	0	0	0
Secondary Total			1	3	0	4	0	2	0	2	2	0	0	0	0	0
Overall Total			12	109	48	169	7	80	35	122	33	3	5	1	0	5

Report for: Corporate Committee – 9 September 2019

Item number:

Title: Internal Audit Progress Report 2019/20 – Quarter 1

Report authorised by : Assistant Director of Corporate Governance

Lead Officer: Minesh Jani, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: minesh.jani@haringey.gov.uk

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Information

1. Describe the issue under consideration

1.1 This report details the work undertaken by Internal Audit in the quarter ending 30 June 2019 and focuses on progress on internal audit coverage relative to the approved internal audit plan, including the number of audit reports issued and finalised – work undertaken by the external provider (Mazars).

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the audit coverage and follow up work completed.

4. Reasons for decision

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

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

5. Alternative options considered

5.1 Not applicable.

6. Background information

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

7. Contribution to strategic outcomes

7.1 The internal audit work makes a significant contribution to ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

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

8.1 Finance and Procurement

There are no direct financial implications arising from this report. The work completed by Mazars is part of the framework contract which was awarded to the London Borough of Croydon to 31 March 2023, in accordance with EU regulations. The costs of this contract are contained and managed within the Audit and Risk Management revenue budget. The maintenance of a strong internal audit function and a proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

Members attention is drawn to paragraph 12.3 and the issues arising from the SAP Application Review which only received a limited assurance rating. The system resilience and recovery weaknesses highlighted in the audit report pose a risk of significant data loss occurring in the event of a system failure or disaster. These control weaknesses are being addressed by service management in conjunction with HCL.

8.2 Legal

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

8.3 Equality

The Council has a public sector equality duty under the Equality Act (2010) to have due regard to:

- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;
- advance equality of opportunity between people who share those protected characteristics and people who do not;
- foster good relations between people who share those characteristics and people who do not.

As contracted providers of Haringey Council, the internal audit contractor is required to demonstrate a strong commitment to equality and fairness in their actions and work practices, and adherence to the Equality Act 2010. Ensuring that the Council has effective internal audit and assurance arrangements in place will also assist the Council to use its available resources more effectively.

9. Use of Appendices

Appendix A – Mazars Progress report – Internal audit

10. Local Government (Access to Information) Act 1985

10.1 Not applicable.

11. Performance Management Information

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

Table 1 – Performance Indicators

Ref.	Performance Indicator	1 st Quarter	Year to date	Year end Target
1	Internal Audit work (Mazars) – Days Completed vs. Planned programme	16%	15%	95%
2	Priority 1 recommendations implemented at follow up	N/A	N/A	95%

12. Internal Audit work – Mazars

12.1 The activity of Mazars for the first quarter of 2018/19 is detailed at Appendix A. Mazars planned to deliver 117 days of the annual audit plan (733 days) during the quarter and delivered 112 days audit work during the quarter. This is similar to the number of days delivered in the first quarter last year. Factors such as the need to undertake some schools and key finance systems audits in the year mean a lower proportion of work is started in Quarter 1. We have agreed a target of 40% with Mazars to be delivered by the end of quarter 2.

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

**12.3 Significant issues arising in Quarter 1
SAP Application Review**

The SAP application supports key Council functions including Finance, Human Resources and Payroll, and Procurement. The modules in use are the Enterprise Resource Planning ('ERP'), Supplier Relationship Management ('SRM') and Business Information Warehouse ('BW'). There are approximately 740 SAP user accounts. The SAP system is externally hosted and managed by a 3rd party, Axon Solutions Limited, (trading as HCL Axon). The contract for this service was awarded in 2013 for a period of 6 years at a cost of approximately £6 million, with an option to extend for a further two periods of 2 years. Depending on the Cabinet decision taken in October either the first of these

additional 2 year periods will be taken up or a new supplier will be chosen. Sungard host the SAP system for HCL Axon.

Given the key role SAP plays in supporting the Council, internal audit found deficiencies in systems resilience plans, inter alia, and the various changes in Council structure over recent years has also led to a formal system owner not being designated so no-one is clearly responsible for the issues we identified. The business is working to identify a system owner, document roles and responsibilities and working with HCL to rectify the weaknesses in systems resilience. Internal audit will check on progress on these matter later in the year.

**Internal Audit
Quarter 1 Internal Audit Report
2019/20
London Borough of Haringey**

August 2019

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Executive Summary

Introduction

This is our first report to the Corporate Committee for the 2019/20 financial year including details of all reports which have reached final stage since our last report of 2018/19. The report provides information on assurance opinions on areas we have reviewed 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. Full copies of our audit reports will be provided 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

From 1st April 2019, we have reviewed our assurance ratings so that the “Full” rating has been removed. “Substantial” now become the highest rating available with a new rating of “Adequate” inserted between “Substantial” and “Limited”. This was because it was felt that “Full” assurance was too hard to attain and we now have greater leeway to reflect positive outcomes. A summary of the new framework of assurances is given below:

Definitions of Assurance Levels	
Level	Description
Substantial Assurance:	Our audit finds no significant weaknesses and we feel that overall risks are being effectively managed. The issues raised tend to be minor issues or areas for improvement within an adequate control framework.
Adequate Assurance:	There is generally a sound control framework in place, but there are significant issues of compliance or efficiency or some specific gaps in the control framework which need to be addressed. Adequate assurance indicates that despite this, there is no indication that risks are crystallising at present.
Limited Assurance:	Weaknesses in the system and/or application of controls are such that the system objectives are put at risk. Significant improvements are required to the control environment.
Nil Assurance:	There is no framework of key controls in place to manage risks. This substantially increases the likelihood that the service will not achieve its objectives. Where key controls do exist, they are not applied.

Key Highlights/Summary of Quarter 1 2019/20:

2018/19 Internal audit reports finalised in the quarter:

- Child Sexual Exploitation
- SAP Application Review
- Accounts Receivable
- Council Tax
- NNDR

2018/19 Schools audit reports finalised in the quarter

- St Ignatius RC Primary School

2018/19 Draft internal audit reports issued this quarter

- Information Security

2019/20 Schools audit reports finalised in the quarter

- St Gilda's Junior School

2019/20 Draft internal audit reports issued this quarter

- Refuse Contract Management
- Belmont Junior School
- St Michaels CE Primary School

Audit Progress and Detailed Summaries

The following table sets out the audits finalised in Quarter 4 of 2018/19 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.

Audit Title	Date of Audit	Date of Final Report	Assurance Level	Direction of Travel	Number of Recommendations (Priority)		
					1	2	3
2018/19							
Child Sexual Exploitation	Feb 19	July 19	Substantial	N/A	0	3	3
SAP	Mar 19	June 19	Limited	N/A	1	7	0
Accounts Receivable (Sundry Debtors)	Feb 19	June 19	Substantial	↔	0	1	2
Council Tax	Jan 19	June 19	Substantial	↔	0	1	1
NNDR	Jan 19	June 19	Substantial	←	0	3	0

As part of the 2018/19 Internal Audit Plan we have visited the following schools, completed a probity audit and during Quarter 1 issued a final report.

School	Date of Audit	Date of Final Report	Assurance Level	Number of Recommendations (Priority)		
				1	2	3
2018/19						
St Ignatius RC Primary School	Mar 19	June 19	Limited	3	9	3
2019/2019						
St Gilda's Junior School	May 19	July 19	Adequate	0	4	7

Statement of Responsibility

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

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any 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. 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.

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Mazars LLP
London
August 2019

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Report for: Corporate Committee – 9 September 2019

Item number:

Title: Counter Fraud Update Report 2019/20
Quarter 1 (Apr-Jun 2019)

Report authorised by : Assistant Director of Corporate Governance

Lead Officer: Minesh Jani, Head of Audit and Risk Management
Tel: 020 8489 5973
Email: minesh.jani@haringey.gov.uk

Ward(s) affected: N/A

**Report for Key/
Non Key Decision: Information**

1. Describe the issue under consideration

1.1 This report details the work undertaken by the Counter Fraud Team for the quarter ending 30 June 2019 and focuses on details of pro-active and reactive investigative work undertaken relating to fraud and/or irregularities – work undertaken by the in-house Fraud Team.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Corporate Committee is recommended to note the counter-fraud work completed in the quarter (1) to 30 June 2019.

4. Reasons for decision

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

5. Alternative options considered

5.1 Not applicable.

6. Background information

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

7. Contribution to strategic outcomes

7.1 The counter-fraud team makes a significant contribution through its pro-active work in ensuring the adequacy and effectiveness of internal control throughout the Council, which covers all key Priority areas.

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

8.1 Finance and Procurement

There are no direct financial implications arising from this report. The work completed by the Fraud Team is funded from within the Audit and Risk Management revenue budget. The maintenance of a strong proactive and reaction fraud investigation team is a key element of the Council's system of Governance.

8.2 Legal

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

8.3 Equality

The Council has a public sector equality duty under the Equality Act (2010) to have due regard to:

- tackle discrimination and victimisation of persons that share the characteristics protected under S4 of the Act. These include the characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (formerly gender) and sexual orientation;
- advance equality of opportunity between people who share those protected characteristics and people who do not;
- foster good relations between people who share those characteristics and people who do not.

The in-house counter-fraud team is required to demonstrate a strong commitment to equality and fairness in their actions and work practices, and adherence to the Equality Act 2010 and this is built into the team's operational procedures. Ensuring that the Council has effective counter-fraud arrangements in place will assist the Council to use its available resources more effectively.

9. Use of Appendices

Appendix A – Employee investigation outcomes

10. Local Government (Access to Information) Act 1985

Not applicable.

11. Performance Management Information

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

Table 1 Performance measures – counter fraud activity

Ref.	Performance Indicator	Q1	YTD		Annual Target
12.2	Tenancy fraud – properties recovered secure tenancies	11	11	16	50
12.3	Tenancy fraud – properties recovered - Regeneration	0	0		
12.4	Right to Buy – fraudulent applications prevented	30	30	30	80

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

12.1 Internal employee investigations

In accordance with the Council's Constitution, the in-house Fraud Team investigates all allegations of financial irregularity against employees.

Quarter 1 investigations

Six (6) employee investigations under review in Q4 2018/19 were brought forward and within Quarter 1, three new cases relating to permanent employees were referred to the Fraud Team.

- Of the nine (9) permanent employee investigations, two were concluded with no further action, one was dismissed, one resigned, and one left the Council. Four cases continued through Q2

Following Internal Audit review or investigation; as at 30 June 2019, there are four (4) employee outcomes to report to Corporate Committee. These are shown at Appendix A.

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.

12.2 Tenancy Fraud – Council properties

In 2018/19, the numbers of referrals received, investigations completed and properties recovered to date by the Fraud Team are summarised below.

2019/20 – Referrals received

Brought forward from 2018/19	148
Referrals received in 2019/20 -Qtr 1	68
Total referrals received for investigation	216

2019/20 Outcomes

Properties Recovered	11
No Fraud identified	45
Total cases concluded	56
Ongoing Investigations	*160

*See Note 1 below

Note 1: Of the 160 ongoing investigations; 68 of these cases (42.5%) are progressing towards tenancy recovery. Following a referral, the status of the tenancy has been investigated and the case is in Possession proceedings, most commonly for one of the following reasons:

- awaiting a Court Hearing

- . the Particulars of Claim are with Legal Services
- . an NTQ is awaiting expiry
- . a succession application has been refused and the tenant is awaiting an offer of smaller accommodation. Notice on Public Trustee
- . the rent account is showing an “Unauthorised Occupant” on the Housing database, awaiting eviction.

Properties will be included in the ‘recovered’ data when the keys are returned and the property vacated.

The Fraud Team works with Homes for Haringey (HfH) to target and investigate housing and tenancy fraud, which forms part of HfH’s responsibilities in the Management Agreement. HfH continue to fund a Tenancy Fraud Officer co-located within the Fraud Team.

The Fraud Team will continue to work with HfH to identify the most effective use of fraud prevention and detection resources across both organisations to enable a joined up approach to be taken, especially where cases of multiple fraud are identified e.g. tenancy fraud, and right to buy fraud.

12.3 Pro-active counter-fraud projects

During 2019/10, the Fraud Team has continued with a number of pro-active counter-fraud projects in areas that have been identified as a high fraud risk. Progress reports on this work will be reported to the Corporate Committee during the year; the findings and outcomes are all shared with service managers as the projects are delivered.

12.3.1 Gas safety – execution of warrant visits

The Fraud Team accompany warrant officers on all executions of ‘warrant of entry’ visits where it is suspected that the named tenant is not in occupation

It has previously been reported to the Corporate Committee that in the financial year 2018/19 that the Fraud Team assisted with 107 gas safety warrants of execution, of which 20 contributed to the total of 52 secure tenancies recovered. In Q1 of 2019/20, the fraud team accompanied the HfH gas compliance team on 21 visits where seven (7) of the properties are included in the 11 secure tenancies recovered.

Fraud Team accompanied warrants of execution 2019/20

Fin Year	No. of visits	No. recovered	% of all secure tenancy recovered
2018/19			

2019/20	No. of visits	No. recovered	% of all secure tenancy recovered
Q1	21	7	30
Q2			
Q3			
Q4			
Total			

As at 30 June 2019 a further ten (10) properties are under continued investigation and the outcomes will be reported as properties are recovered.

12.3.2 Council Tax /Single Person Discount

Following the release of National Fraud Initiative (NFI) data in 2019, the Fraud Team are carrying out a pro-active exercise to identify households where household circumstances have changed, but not been notified to the Council. Council Tax records are being matched with other Council data: Where Council records show a single person household and this is no longer the case, the CT account is adjusted, home-owners notified and there is an expectation that additional income will be generated for the Council. This shall be monitored and reported to Committee throughout the year.

12.3.3 No Recourse to Public Funds (NRPF)

As at 30 June 2019, six (6) referrals have been received and responded to by the Fraud Team through the financial year. The role of the Fraud Team has changed in that they now only provide a financial status position for the NRPF team to include in their overall Children and Family Assessment.

The average cost of NRPF support per family (accommodation and subsistence for a 2 child household) is around £20,000 pa.

12.3.4 Tenancy Fraud Mapping

A map of the tenancy fraud properties recovered in 2018/19 was presented to the Corporate Committee in July 2019 and will be updated with the full year effect 2019/20 in March 2020.

12.4 Right-to-buy (RTB) applications

As at 30 June 2019 there were approximately 203 ongoing applications under investigation. The team reviews every RTB application to ensure that any property where potential tenancy, benefit or succession fraud is indicated can be investigated further. The numbers of tenants applying to purchase their properties under the Right to Buy legislation has been reducing and whilst the reasons are not known with certainty, two possibilities are perceived to be (i) as valuations continue to rise and (ii) growth in tenant awareness of Fraud Team investigations.

In Q1, thirty (30) RTB applications were withdrawn or refused either following the applicants' interview with the Fraud Team, further investigations and/or failing to complete money laundering processes.

12.5 Financial Values 2019/20

Tenancy Fraud – council stock and temporary accommodation:

The Audit Commission valued the recovery of a tenancy, which has previously been fraudulently occupied, at an annual value of £18,000, relating to average Temporary Accommodation (TA) costs. No new national indicators have been produced; therefore although this value is considered low compared to potential TA costs if the property has been identified as sub-let for several years, Audit

and Risk Management continue to use this figure of £18k per property for reporting purposes.

In Q1 eleven (11) council stock properties have been recovered through the actions and investigations of the Fraud Team; therefore a total value of **£198,000** can be attributed to the recovery, or cessation, of fraudulent council and temporary accommodation tenancies, including those in the Regeneration areas.

Right to Buy Fraud:

Overall, the 30 RTB applications withdrawn or refused represent over **£3,360k** in potential RTB discounts; and means the properties are retained for social housing use.

Other Fraud:

Through the course of due diligence checks on RTB applications, the Counter Fraud team noted that there has been a former fraudulent declaration to receive Housing Benefit, where there no entitlement is due. The Fraud Team will alert Housing Benefit to the need to raise an overpayment against the tenant, which will recover lost income to the Council.

In Q1 of 2019/20 this amounted to:

Property	Housing Benefit o/p	Council Tax o/p
1	24k	
	£24k	

12.6 Whistleblowing Referrals

The Head of Audit and Risk Management maintains the central record of referrals made using the Council's Whistleblowing Policy. One referral was made in Quarter 1.

12.7 Prosecutions

As at 30 June 2019 (Q1) three (3) Tenancy Fraud cases have been prepared and are with Legal Services for a Court application.

A fourth Prosecution (Blue Badge and Freedom Pass) has been presented to Court as part of a joint prosecution with three neighbouring London Boroughs. Two new cases are being reviewed for their prosecution potential.

APPENDIX A

IN HOUSE AUDIT – Irregularities Investigated and Concluded 01/04/19- 30/06/19 (Q1)

[incl Q4 c/f 2018/19]

Directorate	Irregularity Type Allegation of...	No. of cases investigated	No. of cases proven at 30/06/2019	No. of Officers subject to Disciplinary	Disciplinary Outcome	Value (£) (if known)	
CTR	Abuse of position	1	1	1	Left the Council		1
E&N	Abuse of position	1	1	1	Dismissed		2
HfH	Working elsewhere in HfH employed time	1	1	0	Resigned		3
CS	Malicious accusations	1	0	0	Allegation not proven Service Manager action		4
E&N	Breach of Recruitment	1	0	0	Allegation not proven Service Manager action		5
TOTAL		5	3	2			

Appendix A (no initials) 190630

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