Public Document Pack

Service Director – Legal, Governance and Commissioning
Julie Muscroft

The Democracy Service
Civic Centre 3
High Street
Huddersfield
HD1 2TG

Tel: 01484 221000
Please ask for: Andrea Woodside
Email: andrea.woodside@kirklees.gov.uk
Monday 22 January 2018

Notice of Meeting

Dear Member

Corporate Governance and Audit Committee

The **Corporate Governance and Audit Committee** will meet in the **Meeting Room 3 - Town Hall, Huddersfield** at **11.00 am** on **Tuesday 30 January 2018.**

The items which will be discussed are described in the agenda and there are reports attached which give more details.

Julie Muscroft

Service Director – Legal, Governance and Commissioning

Kirklees Council advocates openness and transparency as part of its democratic processes. Anyone wishing to record (film or audio) the public parts of the meeting should inform the Chair/Clerk of their intentions prior to the meeting.

The Corporate Governance and Audit Committee members are:-

Member
Councillor Hilary Richards (Chair)
Councillor Julie Stewart-Turner
Councillor Carole Pattison
Councillor Kath Pinnock
Councillor Linda Wilkinson
Councillor Ken Sims
Councillor Nigel Patrick

When a Corporate Governance and Audit Committee member cannot be at the meeting another member can attend in their place from the list below:-

Substitutes Panel

Conservative	Green	Independent	Labour	Liberal Democrat
B Armer	K Allison	C Greaves	E Firth	J Lawson
D Bellamy	A Cooper	T Lyons	C Scott	A Pinnock
G Wilson			M Sokhal	
D Firth			S Ullah	
J Taylor			S Hall	

Ex Officio Members
Councillor Andrew Marchington
Councillor Graham Turner
Councillor Musarrat Khan – Cabinet Member (Corporate Portfolio)

Agenda
Reports or Explanatory Notes Attached

6: Public Question Time

The Committee will hear any questions from the general public.

7: Corporate Customer Standards - Interim Update Report — 9 - 16

To receive the report.

Contact: Chris Read, Corporate Complaints Officer

8: Constitution Amendment - Proposed Changes to Terms of Reference (Corporate Governance and Audit Committee) — 17 - 24

To consider the report.

Contact: Samantha Lawton, Legal Services Tel: 01484-221000

9: Treasury Management Strategy 2018/2019 — 25 - 46

To consider the report and make recommendations to Council.

Contact: Eamonn Croston, Head of Accountancy and Finance

10: External Audit Plan 2017/2018 — 47 - 72

To receive, discuss and note the report.

Contact: Emma Kirkby, KPMG External Audit

11: External Audit Progress Report - Technical Update (Draft) — 73 - 90

To receive, discuss and note the report.

Contact: Emma Kirkby, KPMG External Audit

12: Annual Report - Grants and Returns 2016/2017 — 91 - 98

To receive, discuss and note the report.

Contact: Emma Kirkby, KPMG External Audit

13: Appointment of External Auditor — 99 - 102

To receive the report.

Contact: Martin Dearnley, Head of Audit and Risk

14: Exclusion of the Public

To resolve that under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

15: Quarterly Report of Internal Audit 2017/2018 (Quarter 3) — 103 - 134

Exempt information within Part 1 of Schedule 12A of the Local Government Act 1972 namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in disclosing the information and providing greater openness in the Council’s decision making.

To receive the report.

Contact: Martin Dearnley, Head of Audit and Risk

This page is intentionally left blank

Contact Officer: Andrea Woodside

KIRKLEES COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Friday 17th November 2017

Present:	Councillor Hilary Richards (Chair) Councillor Julie Stewart-Turner Councillor Kath Pinnock Councillor Linda Wilkinson Councillor Ken Sims Councillor Nigel Patrick
Apologies:	Councillor Carole Pattison

1 Membership of the Committee
Apologies for absence were received on behalf of Councillor Pattison.

2 Minutes of Previous Meeting
Approved as a correct record.

3 Interests
Cllr Marchington declared that he was a Member of KNH Board, in relation to Agenda Item 10.

4 Admission of the Public
It was noted that Agenda Item 16 would be considered in private session.

5 Deputations/Petitions
None received.

6 Public Question Time
No questions were asked.

7 Changes to the Procedures for the Dismissal of Statutory Officers
(Julie Muscroft and Debbie Hogg, by virtue of their posts as Service Directors, declared and interest in this item).

The Committee gave consideration to a report which recommended changes to the Council's Constitution to reflect changes to legislation relating to the dismissal of statutory officers. It was noted that the Committee had previously received a reports regarding changes to legislation in June 2016, and September 2017, which were attached at Appendix A to the considered report.

The report proposed that, further to discussions at the meeting of 15 September 2017, Option A as detailed in the considered report be supported and that a new Statutory Officer Disciplinary Committee be established. The report advised that the

Committee would hear all matters relating to ‘disciplinary action’ and would comprise of two independent persons and five elected members with at least one being a Member of the Cabinet, whom must be included within a quorum of three.

It was noted that the report would be submitted to the meeting of Council on 13 December 2017 for determination.

RESOLVED - That a report be submitted to the meeting of Council on 13 December 2017 recommending the approval of the establishment of a ‘Statutory Officer Disciplinary Committee’, in accordance with the terms of reference as attached at Appendix B of the considered report.

8 Code of Corporate Governance (Reference to Council)

The Committee gave consideration to a report which advised of the need to review and update the local Code of Corporate Governance. It was noted that the Committee had previously considered an updated Code on 15 September 2017, a copy of which was attached at Appendix 1 of the considered report, and that the draft Code had now been amended as a result of the comments made, which was attached at Appendix 2.

The Committee were asked to adopt the revised Code of Corporate Governance.

RESOLVED - That approval be given to the Council’s Code of Corporate Governance as attached at the appendix to the considered report.

9 Amendment to Councillor Allowances Scheme (Reference to Council)

The Committee received a report which sought approval of an amendment to the Councillors Allowances Scheme to incorporate provisions regarding maternity, paternity and adoption leave. A copy of the revised scheme, incorporating the proposed changes, was attached at Appendix 1 (part 7) of the considered report.

Paragraph 2 of the report set out details of the entitlement for (i) maternity and adoption leave, which would be 52 weeks including 6 weeks at 90% of basic allowance/special responsibility allowance and (ii) paternity leave, which would be up to two weeks.

It was noted that the report would be submitted to the meeting of Council on 13 December 2017 for determination.

RESOLVED - That the report be submitted to the meeting of Council on 13 December 2017 with a recommendation that the proposed changes to the Members’ Allowances Scheme, as attached at Appendix 1 of the considered report, be approved.

10 Treasury Management Activities - Half Yearly Monitoring 2017/2018

The Committee received a report which set out details of half yearly treasury activity monitoring, covering the period 1 April to 30 September 2017.

The report provided assurance that the Council’s treasury management function was being managed prudently and pro-actively. It advised that external investments averaged £41.3m during the period at an average rate of 0.20% and that investments ranged from a peak of £59.8m to a low of £23.2m.

The Committee noted that the treasury management budget was forecast to marginally underspend by £100k in 2017/2018 against an annual budget provision of £22.2m.

The report explained that a new regulatory update was to be effective from 3 January 2018 which meant that the Council would be required to formally apply to renew its status as a ‘professional client’ for the purposes of continuing to invest with or borrow from regulated financial services firms, such as money market funds, and
the report therefore recommended that the Council formally applies on this basis.

The report also advised that CIPFA were currently consulting on a number of changes to the current Treasury Management and Prudential Codes of practice, to be implemented from April 2018 onwards, and Cabinet noted the summary of the key proposals and implications.

It was also noted that the report recommended the formal adoption of a proactive cashflow management approach between the Council and Kirklees Neighbourhood Housing as an integral to an effective treasury management strategy.

Section 2 of the considered report provided an overview of economic context, investment performance, borrowing performance, prudential indicators and risk and compliance issues.

RESOLVED - That the report be received and submitted to the meeting of Cabinet on 21 November 2017 and Council 13 December 2017.

11 Risk Management Statement

The Committee received the draft updated Risk Management Statement, which reflected changes to a new approach to risk management. It was noted that the document had been completely rewritten to reflect an approach appropriate to fit the culture and expectations of the Council and that work had been undertaken to change the emphasis of the current arrangements from a process focussed upon reporting to one that actively promotes an understanding of risk, and drives the management of risks.

Appendix A to the report set of a schedule of issues that the Committee may wish to consider.

RESOLVED - That the report be received and submitted to a meeting of Cabinet and Council.

12 Annual Governance Statement 2016/2017

The Committee were asked to receive and approve the draft Annual Governance Statement 2016/2017. It was noted that the Statement was a statutory requirement to accompany the accounts and provide assurance regarding the governance and internal control environment in which they have been compiled.

The report advised that the draft Statement had been compiled following the annual review of the effectiveness of the overall internal control and governance arrangements and drew upon a number of forms of assurance which had been presented during 2016/2017, including matters to this Committee.

The Committee were advised that the draft Statement highlighted a number of 'significant governance issues', some of which had been brought forward from the 2015/2016 Statement, as well as new issues identified during the last year. It was noted that the controls the Council was taking to address the issues raised had been formulated into an action plan for the Committee to monitor on a quarterly basis.

The report advised that the finalised version of the Statement would be published as an addendum to the Annual Accounts.

RESOLVED - That the approval be given to the draft Annual Governance Statement 2016/2017.

13 External Audit Report 2016/2017

The Committee received the KPMG External Audit Report 2016/2017.

John Prentice provided an overview of the report which included matters relating to significant audit risks, proposed opinion and audit differences, the control environment, a LOBO objection, a PFI objection, financial resilience and the overall conclusion.

The Committee noted the verbal overview and the content of the report.

In recognition that this would be the final Committee that John Prentice and Alastair Newall would attend on behalf of KPMG, the Committee asked that their thanks for their contributions be placed on record.

RESOLVED - That the 2016/2017 External Audit Report be received and noted.

14 Approval of Council's Final Accounts

The Committee received a report which provided an update on the final accounts and audit processes for 2016/2017 and sought approval of the Council's Statement of Accounts.

The report advised that the draft accounts had been signed on 26 May 2017 and that a public inspection period had taken place from 5 June to 14 July 2017. During this time, two objections were raised by local electors and had been formally accepted by the Council's auditors. It was noted that work was ongoing to resolve the objections and that the audit would be completed following their resolution. However, sufficient evidence had been obtained to conclude that the accounts are not materially misstated and so KPMG expected to give an unqualified audit opinion on the financial statements. KPMG also noted that the Council was making progress in implementing the improvements required by the November 2016 Ofsted report.

The Committee were advised that, in summary, KPMG intended to issue an ‘except for’ qualified value for money conclusion in relation to the Council’s use of resources in 2016/2017, highlighting the 2016 Ofsted report.

RESOLVED -
1) That approval be given to the Statement of Accounts 2016/2017.

2) That approval be given to the Chair of the Committee certifying the Statement of Responsibilities as set out on page 16 of the considered report.

3) That approval be given to the Letter of Representation, as attached at Appendix B of the considered report, and that the Chair of the Committee be authorised to sign the document on behalf of the Committee.

15 Exclusion of the Public

RESOLVED - That acting under Section 100(A)(4) of the Local Government Act, 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act, as specifically stated in the undermentioned Minute.

16 Quarterly Report of Internal Audit 2017/2018 (Quarter 2)

(Exempt information within Part 1 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information)(Variation) Order 2006, namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption, which would protect the interests of the Council and the company concerned, outweighs the public interest in disclosing the information and providing greater openness in the Council’s decision making.)

RESOLVED - That the Internal Audit Quarterly Report (Quarter 2) be received and noted.

This page is intentionally left blank

KIRKLEES COUNCIL

COUNCIL/CABINET/COMMITTEE MEETINGS ETC
DECLARATION OF INTERESTS

Corporate Governance and Audit Committee

Name of Councillor

Item in which you have an interest	**Type of interest (eg a disclosable pecuniary interest or an "Other Interest")**	**Does the nature of the interest require you to withdraw from the meeting while the item in which you have an interest is under consideration? [Y/N]**	**Brief description of your interest**

Signed: ………………………………………… **Dated:** ……………………………………..

NOTES

Disclosable Pecuniary Interests

If you have any of the following pecuniary interests, they are your disclosable pecuniary interests under the new national rules. Any reference to spouse or civil partner includes any person with whom you are living as husband or wife, or as if they were your civil partner.

Any employment, office, trade, profession or vocation carried on for profit or gain, which you, or your spouse or civil partner, undertakes.

Any payment or provision of any other financial benefit (other than from your council or authority) made or provided within the relevant period in respect of any expenses incurred by you in carrying out duties as a member, or towards your election expenses.

Any contract which is made between you, or your spouse or your civil partner (or a body in which you, or your spouse or your civil partner, has a beneficial interest) and your council or authority -

- under which goods or services are to be provided or works are to be executed; and
- which has not been fully discharged.

Any beneficial interest in land which you, or your spouse or your civil partner, have and which is within the area of your council or authority.

Any licence (alone or jointly with others) which you, or your spouse or your civil partner, holds to occupy land in the area of your council or authority for a month or longer.

Any tenancy where (to your knowledge) - the landlord is your council or authority; and the tenant is a body in which you, or your spouse or your civil partner, has a beneficial interest.

Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -
(a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and
(b) either -

the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or

if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, or your spouse or your civil partner, has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

Name of meeting: Corporate Governance and Audit Committee

Date: 30.01.2018

Title of Report: Corporate Customer Standards Officer Interim Report (2017-2018)

Purpose of report

To update CGAC with information about Kirklees Council complaints performance between April -October 2017, to set out details of those complaints where the Local Government Ombudsman found fault, and to highlight examples of learning from complaints over the period. The report also updates the ongoing discussion regarding the Whistleblowing Procedure. CGAC to note the contents of the report.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**No** .
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	No
The Decision - Is it eligible for call in by Scrutiny?	**Yes**
Date signed off by Strategic Director & name **Is it also signed off by the Service Director for Finance IT and Transactional Services?** **Is it also signed off by the Service Director for Legal Governance and Commissioning Support?**	**Debbie Hogg** **As above** **Julie Muscroft**
Cabinet member portfolio	**Graham Turner**

Electoral wards affected: **All**

Ward councillors consulted: **N/A**

Public or private: **Public**

1. Summary

The council once again received fewer ombudsman complaints than may be anticipated for population when compared with West Yorkshire Councils as a whole. It also received a smaller percentage of upheld complaints in comparison with last year, and is second performing council in West Yorkshire at this stage.

A summary of complaints upheld by the Ombudsman during the period and some examples of identified learning are provided. Information about how the council can improve the way it learns from complaints is provided.

An update relating to the on-going discussion regarding the Whistleblowing procedure is provided. We propose to ensure Whistleblowers are given advice about how their concerns may be handled as soon as their concerns are logged. The provisions within GDPR legislation may require a review of the information provided.

2. Information required to take a decision

Report provided for information and discussion.

3. **Implications for the Council**

3.1 **Early Intervention and Prevention (EIP)**

3.2 **Economic Resilience (ER)**

3.3 **Improving Outcomes for Children**

3.4 **Reducing demand of services**

Learning from complaints handling should generate efficiencies for the council and improve the customer experience by minimising the number of customer contacts.

3.5 **Other (e.g. Legal/Financial or Human Resources)**

To maintain and improve council reputation with regard to complaints handling.

4. **Consultees and their opinions**

None

5. **Next steps**

To discuss the opportunities for learning from complaints widely with senior managers. CR to attend Executive Team in due course.

6. **Officer recommendations and reasons**

To note the information provided and to discuss learning from complaints.

7. **Cabinet portfolio holder's recommendations**

8. **Contact officer**

Chris Read, Corporate Customer Standards – 221000 chris.read@kirklees.gov.uk

9. **Background Papers and History of Decisions**

N/A

10. **Service Director responsible**

Debbie Hogg

Corporate Customer Standards Interim Report April – October 2017

To respond to a previous decision by Corporate Governance and Audit Committee and Local Government Ombudsman recommendations, this is an interim report detailing Ombudsman complaint outcomes. The document also incorporates information relating to learning from complaints and provides an update to the Whistleblowing Procedure.

1: Ombudsman Update – health indicator

1.1 Kirklees have received fewer investigations this year so far, and have performed better overall with a lower percentage of cases upheld.

1.2 Looking at the cases published on the Ombudsman website for the first 6 month period determines the following figures.

Ombudsman Case Summaries Published - April – October 2017

Authority	Number Considered	Upheld	Percentage upheld
Bradford	29	7	24%
Calderdale	18	7	39%
Kirklees	**18**	**4**	**22%**
Leeds	54	15	28%
Wakefield	14	1	7%
Totals	**133**	**34**	**26%**

1.3 Kirklees has approximately 19% of the population in West Yorkshire. Here approximately 14% of West Yorkshire complaints came from Kirklees, and the proportion upheld was the second best, and better than the West Yorkshire average.

1.4 In relation to the number of third stage complaints handled, the numbers received so far in 2017-18 compare very closely with that of recent years at the same stage.

2: Learning: Ombudsman Cases Upheld

Cases upheld by the Local Government Ombudsman over the period 1 April – 30 September are as follows:

2.1 Adults: Residential Care - The Council did not provide Mr B with a satisfactory standard of care at its care home. It has apologised to his daughter, Mrs X for this. We are satisfied the actions it has taken because of Mrs X's complaint should prevent this happening again. It has agreed to write to Mrs X to explain its actions to improve the standard and quality of care at the home.

2.1.1 Learning: *The Council said it would improve practice at the home to make sure the situation did not reoccur. In summary it would:*

- *Hold meetings with staff at all levels to share learning from the complaint and discuss what needed to change to prevent it happening again.*
- *Improve handover procedures between team leaders and support workers to make sure each member of staff is clear about residents' care needs.*
- *Remind staff about the importance of accurate care record keeping*
- *Reminded managers of their responsibility to provide high quality care, avoid complacency and be on the lookout for poor practice. Also remind managers to challenge and deal with poor practice.*
- *Reminded all staff about their responsibility to provide quality care and improve practice.*
- *Appoint a coordinator to improve how the home responded to concerns.*

- *Arrange staff training on dignity in residential care.*

  The Council apologised to Mrs X for how the care home had responded to her first complaint. It accepted its first response was unhelpful and unproductive. It had spoken to the care home managers to make sure they would properly respond to future complaints.

2.2 **Adults: Domiciliary Care -** The Council failed to ensure it met Mrs X's needs through its care plan and that Mrs X took her medication. It also failed to keep a complete care record of the care Mrs X received. The Council has agreed to apologise to Mrs X's son, Mr Z. It will also review its procedures to ensure it gives clear instructions to care providers.

2.2.1 **Learning**: *The Council has agreed, within six months, to carry out its offer to review its procedures. It should amend its procedures to ensure it gives clear instructions to care providers on how to meet a person's assessed needs.*

2.3 **Children's: Special Educational Needs -** Summary: The Council was at fault when it failed to provide the speech and language therapy and occupational therapy set out in Part 3 of Mrs M's son's Statement. The Council has agreed to apologise to Mrs M and pay her £1,350 for her unnecessary distress and time and trouble and to help remedy the injustice caused to her son. There is no fault in the Council's provision of her son's Applied Behavioural Analysis therapy or its decision to hold her son's annual review in the autumn term of 2017.

2.3.1 ***Learning*** *The Council has made efforts to commission the occupational therapy S requires but has experienced problems. This is because the therapist services wish to carry out their own assessment before working with S. The Council is reluctant for the therapists to do this as it is concerned the assessment will recommend a different type of therapy to the one specified in S's Statement. The Council is concerned this would lead to it being in breach of its duty to provide the therapies detailed in S's Statement. Instead of taking this risk, the Council has chosen to provide no occupational therapy at all for two terms and continues to provide none. This is fault. The Council is obliged to ensure it is provided and its duty in non-delegable.*
The Council needs to resolve the lack of occupational therapy quickly to reduce the impact on S.

2.4 **Adults Charging** - There was no fault in the way the Council finally invoiced Mrs X for Mrs Y's care. There was fault in the way the Council financially assessed Mrs Y for her care. The Council has corrected this with an adjustment. There was fault in the way the Council issued invoices for the wrong care home and after Mrs Y's death. There was fault in the delay in sending the final invoice although they had originally contacted the family to discuss the matter. The Council has redressed the distress this caused with an apology and waived part of the final invoice costs.

2.4.1 ***Learning*** *There was no fault in the way the Council finally invoiced Mrs X for Mrs Y's care. This complaint is not upheld.*

There was fault in the way the Council financially assessed Mrs Y for her care. This complaint is upheld. The Council corrected this with an adjustment. This is enough redress for any injustice suffered.

There was fault in the way the Council issued invoices for the wrong care home and after Mrs Y's death. This complaint is upheld. The Council has apologized for this error. This is enough redress for any injustice suffered.

There was fault in the delay in sending the final invoice. This complaint is upheld. The Council has redressed the distress this caused with an apology and waived part of the final invoice costs. This is enough redress for any injustice suffered.

I am pleased to see the Council has already looked at reducing backlogs and improving procedures. The situation is not likely to reoccur.

3 Complaints learning –

3.1 **Examples from Third Stage Complaints**

3.1.1 There was a complaint about a situation where a business was successfully prosecuted. A pre-prepared press release did not mirror the exact changes that were successfully progressed.

Press statements are pre-prepared as the press are required to publicise the court action as soon as possible following the court. It was agreed that the mis-match in the press statement was an error which could have been avoided, and more care needed to be taken on such matters.

3.1.2 We received a complaint in relation to the new administration charges applied for providing adult care services. The service provided in this instance was one that could only be obtained from the Council and the service user argued they therefore had no choice but to have to pay the service charge. The service agreed that the charge could be waived in such instances.

3.1.3 A parent of a premature born child complained against a council panel decision not to allow their child to start school out of chronological year age. The parent explained that regardless, they would delay the child's entry to school until the legally permitted period. This meant in effect the child would miss out on reception year schooling, and after a further year at nursery with younger children, would then be required to join other children of the same chronological year age the following year.

The complaint investigation determined that not enough weight had been placed on the parents intentions, although there was no evidence to suggest the child needed to delay joining school. We offered support to the parent so they could obtain advice to make a fully informed decision about what was best for the child.

3.2 Increasing emphasis on complaints learning

3.2.1 Senior managers have asked for some feedback about how we can apply more intelligence from complaints handling into everyday operations.

3.2.2 One area we could expand is around incorporating complaints handling into project planning for service change. A communications plan to incorporate likely complaints would have the following benefits:

- If a complaint can be anticipated, the circumstances where they occur may be able to be mitigated (either through an amendment to the policy or to the intended procedure)

- Standard responses help staff understand the change in procedure and it also ensures a consistent message is shared with the member of the public.

- Pre-planning means time can be saved when the type of complaint is received as they can be handled in a similar way (accepting there will always be some variation and individual situations to consider).

3.2.3 There could also be a system whereby complaints handling is incorporated as standard into PRD and 1:1 discussion for Senior Managers, in terms of identifying individual service learning in keeping tabs on ongoing key cases, and to ensure that complaints are given emphasis and priority.

3.2.4 There needs to be greater recognition that some residents are more likely to make complaint than others. This could be created through a number of causes – for example, a generally high expectation of the level of service anticipated, anxiety created through poor service received in the past, a poor relationship/trust issue with the council, a need to receive a high level of personal attention etc. The relationships with these residents need more careful management and services should identify those cases that will carry more risk of complaint.

3.2.5 Work on how to embed learning from complaints and how to share the outcomes with staff to gain assurance and evidence that the learning has been picked up is required.

3.2.6 This work will be discussed with the wider senior management ground and expanded in the near future. The Corporate Customer Standards Officer is to attend a meeting of Executive team in the near future.

3.3 Concerns with timeliness and accuracy of responses to the Ombudsman

3.3.1 At the point the complaint has reached the Local Government Ombudsman, the resident has probably already progressed their complaint through perhaps three complaints processes and is keen to see final resolution. It is thus vital that our responses to the Ombudsman are complete, timely and accurate. There are also reputational issues with the Ombudsman if services appear to be unable to produce timely and comprehensive responses.

3.3.2 Unfortunately, we have identified occasional continuing issue with the responses we receive from services:-

- Deadlines are missed but the Ombudsman is not advised until the day of deadline expiry or a new deadline requested until the end of the response period.

- Information is missing from our response or it is incorrect, giving opportunity for errors to occur with the Ombudsman investigation.

- There are a small number of residents who make periodic complaint to the Ombudsman, and we do not seem to pay particular attention to their concerns.

3.3.3 We have identified that with staff changes there is a risk where new managers miss elements of the complaint

3.3.4 Managers do not always monitor a complaint matter as it becomes more serious until quite late on in the process, or that checks are made with complainants who make regular complaint

3.3.5 Better planning is required in relation to preparing Ombudsman responses.

3.3.6 As a result I have met with managers in one service to confirm they will look to allocate a senior manager to serious cases sooner, and corporately we will introduce a chase up service after two weeks to check that a timely response can be provided. The service is considering how it can embed and share learning with staff across its directorate.

3.3.7 We have apologised to the Ombudsman for delays where they have occurred and advised them we will be introducing a further reminder to services midway through the standard 28 day response timescale to check whether there are any difficulties with services drawing the information together, so any potential delay can be flagged up with them sooner. I will be raising these issues with the wider management group in due course.

4 Whistleblowing Procedure

4.1 The nature of some of the Whistleblowing complaints received means that occasionally officers may be required to progress them through a formal external route (for example, via the Police or through a formal HR process). The Whistleblower may hold their own view on how matters should be progressed and a concern may arise through this conflict of interest.

4.2 At a previous Corporate Governance and Audit Committee, Members expressed some concerns that the Whistleblowing Policy should be as open as possible, so as to ensure potential Whistle-blowers are not put off from bringing forward a concern.

4.3 Having considered matters, the Whistleblower administrators intend to give early advice to the Whistleblower to highlight that their concerns may need to be progressed through a formal external route, so as to give as much notice of this possibility as possible. This is an internal process which does not require an amendment to the published Whistleblowing procedure.

4.4 The requirements of data protection are being extended through the General Data Protection Regulations (GDPR) with effect from 25 May 2018. The impact of GDPR upon the Whistleblowing Procedure is currently being considered and may have an impact on the advice about the use of data we are required to provide to potential Whistleblowers. We will continue to update CGAC as we work through the process.

This page is intentionally left blank

Kirklees COUNCIL

Name of meeting: Corporate, Governance and Audit Committee

Date: 30 January 2018

Title of report: Constitution – Proposed Changes to Terms of Reference of CGAC

Purpose of report

To set out proposed changes to the Council's constitution as described in paragraph 2 and as set out in more detail in the attached Appendix, which show the proposed amendments.

To seek approval and/or comments and/or recommendations from Committee in relation to these proposed changes to make to Council on in March 2018.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**No**
Key Decision - Is it in the [Council's Forward Plan (key decisions and private reports)?](#)	**No**
The Decision - Is it eligible for "call in" by Scrutiny?	**Yes**
Date signed off by Director & name **Is it also signed off by the Service Director for Finance, IT and Transactional Services?** **Is it also signed off by the Service Director - Legal Governance and Commissioning?**	
Cabinet member portfolio	**Graham Turner and Musarrat Khan - Corporate**

Electoral wards affected: **All**
Ward councillors consulted: **None**

Public or private: **Public**

1. Summary

1.1 It is the role of Cabinet to provide strategic oversight and to keep the Council's use of surveillance under review. The relevant legislation which regulates use of surveillance is the Regulation of Investigatory Powers Act 2000 (RIPA). It receives a report on its use by the Council annually. At its meeting on 19th December 2017 Cabinet reviewed its use of RIPA and agreed to update the policy. It also proposed that CGAC receive regular updates on RIPA compliance throughout the year

2. Information required to take a decision

2.1 The Council is subject to the requirements of RIPA which sets out how and when a local authority such as Kirklees Council, can use covert surveillance. The three types of surveillance regulated by RIPA are directed surveillance, the use of covert human intelligence sources (informants) and the obtaining of communications data (which does not include obtaining the content of any electronic communication). The Cabinet adopted the current RIPA Policy on 19th December 2017

2.2 Surveillance can only be authorised via RIPA where it is both necessary and proportionate to the aims to be achieved and the intrusion into other people's privacy which may result. Accordingly covert surveillance will only be appropriate where other options are not available. The Council cannot authorise "intrusive surveillance" which is covert surveillance that is carried out in relation to anything taking place on residential premises or in any private vehicle and it is most unlikely that the Council would wish to use a covert human intelligence source as part of any investigation unless a request was made by West Yorkshire Trading Standards Service.

2.3 The Council is regularly inspected by the Office of the Surveillance Commissioners in relation to its use of directed surveillance and of covert human intelligence sources. The Inspector and the Code of Practice advises that councillors are updated regularly on the use of the 2000 Act to ensure that it is being used consistently with the Council's policy and that the policy remains fit for purpose and has suggested that ideally this be more than once a year.

2.4 In accordance with this Cabinet propose that update reports are to be brought to Corporate Governance and Audit Committee so that it may monitor the use through regular reports during the year. Accordingly, the terms of reference of CGAC require amending to reflect this and the amended terms of reference are attached at Appendix 1.

2.5 Cabinet will continue to retain a strategic oversight, be updated annually, and will set the policy once a year.

3. Implications for the Council

3.1 Early Intervention and Prevention (EIP)
N/A

3.2 Economic Resilience (ER)
N/A

3.3 Improving Outcomes for Children
N/A

3.4 Reducing demand of services
N/A

3.5 Legal/Financial Implications

It is important that the Council's use of covert surveillance is in accordance with the RIPA regime. Failure to do so could lead to legal challenge and/or evidence gathered via unlawful surveillance being ruled inadmissible in legal proceedings.

4. Consultees and their opinions

4.1 The following have been consulted on the contents of this report and have approved them:

4.1.1 The Service Director – Legal, Governance and Commissioning, as the Senior Responsible Officer.

4.1.2 The Head of Legal Services.

5. Next steps

To take the report to Council to recommend the amendment to the terms of reference of the Corporate, Governance and Audit Committee in the Constitution.

6. Officer recommendations and reasons

That:

6.1 Members approve and/or comment on the amended terms of reference providing authority to Corporate Governance and Audit Committee to receive regular updates and to monitor the Council's use of RIPA during the year.

6.2 Recommend to Council that authority is delegated to the Service Director – Legal, Governance and Commissioning to make the appropriate amendments to the constitution which are agreed by Council as well as any consequential amendments to the constitution to reflect the changes agreed and proposed in this report.

7. Cabinet portfolio holder recommendation

N/A

8. Contact officers

Samantha Lawton samantha.lawton@kirklees.gov.uk
Senior Legal Officer 01484 221 000

9. Background Papers and History of Decisions

Cabinet Report dated 19 December 2017 - Proposals to Update the Council's RIPA Policy

10. Service Director responsible

Julie Muscroft
Service Director – Legal, Governance and Commissioning
01484 221 000
julie.muscroft@kirklees.gov.uk

11. Appendices

Appendix 1 – Amended Terms of Reference for Corporate, Governance and Audit committee

This page is intentionally left blank

APPENDIX 1

Corporate Governance and Audit Committee

Membership

Seven members, two from each of the three largest groups on the council and one from the minority group.

Four ex-officio members with rights to speak but not vote:

- Member of the Cabinet with responsibility for Corporate Governance
- The Chair of the Overview & Scrutiny Management Committee,
- The Chair of the Standards Committee
- Person having specialist knowledge of treasury management (to be appointed and attend as required).

No leaders of any group shall be a member of the Committee

Proportionality need not apply to this Committee.

Terms of Reference

Delegated authority in respect of all powers and duties set out below and all other Council functions not required to be determined by the full Council and not delegated to any other committee:

1. To be responsible for:

    1.1. Monitoring the operation of the council's Constitution and keeping its terms under review, including all procedure rules

    1.2. Making recommendations to the council for any change or additions to the procedure rules or Articles of the Constitution or executive arrangements

2. To determine all matters relating to the adoption and operation of the Members' Allowances Scheme including recommendation to the council of the adoption of or amendment to any such Scheme

3. To keep under review the portfolios of the Cabinet and the terms of reference and delegations of Council functions to committees and formally appointed bodies and officers

4. To consider the council's arrangement relating to accounts including

(a) the approval of the statement of accounts and any material amendments of the accounts recommended by the auditors

(b) to keep under review the council's financial and management accounts and financial information as it sees fit

5. To consider the council's arrangements relating to the external audit requirements including:

   (a) the receipt of the external audit reports so as to;

      (i) inform the operation of the council's current or future audit arrangements

      (ii) provide a basis for gaining the necessary assurance regarding governance prior to the approval of the council's accounts

6. To consider the council's arrangements relating to internal audit requirements including:

   (a) considering the Annual Internal Audit report, reviewing and making recommendations on issues contained therein

   (b) monitoring the performance of internal audit

   (c) agreeing and reviewing the nature and scope of the Annual Audit Plan

7. To review the adequacy of the council's Corporate Governance arrangements (including matters such as internal control and risk management) and including to review and approve the annual statement of Corporate Governance.

8. To agree and update regularly the council's Code of Corporate Governance, monitoring its operation and compliance with it, and using it as a benchmark against performance for the annual Statement of Corporate Governance.

9. To designate the Head of Paid Service, the Monitoring Officer and all statutory "proper officers".

10. To approve payments or provide other benefits in cases of maladministration as required and make recommendations arising from any review of a report of the Local Government and Social Care Ombudsman

11. Following a decision of Council to undertake a community governance review to agree the terms of reference for and conduct such a review, making recommendations to Council who will determine the outcome of such reviews.

12. Functions relating to elections and parishes set out in Part D of Schedule 1 to the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (or any replacement or amendment of it)

13. Charities and charitable trusts (so far as not the responsibility of Cabinet).

14. Responsibility for reviewing and challenging all treasury management activities.

15. To determine appointments of individuals to outside bodies (except school governing bodies) and revocation of such appointments.

16. To determine nominations for charitable trustees in cases where there has been failure reach agreement.

17. To receive updates and monitor compliance with the Council's Regulation of Investigatory Powers Act (RIPA) policy

This page is intentionally left blank

Kirklees COUNCIL

Name and date of meeting: **Corporate Governance and Audit Committee**
30 January 2018

Cabinet
30 January 2018

Council
14 February 2018

Title of report: Treasury Management Strategy 2018-19

Purpose of report

Under the CIPFA Code of Practice on Treasury Management (2011) and accompanying Prudential Code 2011 the Council must present a Treasury Management Strategy at the start of each financial year. Within the Treasury Management Strategy an Investment Strategy must also be approved by Council.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**Yes**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	**Key Decision: Yes** **Private Report/Private Appendix: N/A**
The Decision - Is it eligible for call in by Scrutiny?	**No**
Date signed off by Strategic Director and name **Is it also signed off by Service Director** **Is it also signed off by the Service Director Legal, Governance and Commissioning**	**Jacqui Gedman -** **Debbie Hogg –** **Julie Muscroft –**
Cabinet member portfolio	**Corporate** **Graham Turner** **Musarrat Khan**

Electoral wards affected: **N/A**
Ward councillors consulted: **N/A**
Public or Private: **Public**

1 Summary

1.1 The Council has formally adopted CIPFA's Code of Practice on Treasury Management (2011 Edition), and accompanying Prudential Code 2011, and is thereby required to consider a treasury management strategy before the start of each financial year. In addition, the Department for Communities and Local Government (DCLG) issued guidance on local authority investments in March 2010, which requires the Council to approve an Investment Strategy before the start of each financial year.

1.2 This report meets the requirements of the current CIPFA Codes and current DCLG Guidance (2011 Edition). Both the current CIPFA Treasury Management and Prudential Codes and current DCLG guidance on local authority investments have been subject to recent consultation exercises, with a view to them being revised in time for 2018-19 financial year. .

1.3 Following consultations in February and August last year, CIPFA published its new 2017 editions of *Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes* and the *Prudential Code for Capital Finance in Local Authorities* just before Christmas 2017. Updated sector specific guidance notes, which include the treasury management indicators for local authorities, have yet to be published. The timing is unhelpful for many Councils, including Kirklees, in terms of adherence to the 2017 Code of Practice, in light of current Budget and Committee timetable requirements in preparation for 2018-19.

1.4 Before being able to refer to the revised code and guidance, Council officers will need to see the new Treasury Management (TM) Code Guidance Notes which include the TM indicators, and new DCLG Investment Guidance (not finalised at the time of writing this report), to fully appreciate the new regulatory framework for treasury management.

1.5 The 2017 TM guidance also includes the requirement for Councils to draft a capital strategy before the start of the 2018-19 financial year. However, DCLG consultation proposals include some potential overlaps with the CIPFA 2017 TM Code. As noted above, DCLG proposals have yet to be finalised, which means that the 2018-19 TM regulatory framework has yet to be finalised. As reported to full Council on 13 December 2017 as part of the half-yearly monitoring report on Treasury Management activities, which highlighted some of the key proposed Code changes, the existing 12 guideline treasury management practices within the existing code remain intact resultant from the Code 2017 revision , other than an additional section to cover commercial investments. The link to the 13 December 2017 report is included below for information (Agenda Item 11):

Agenda for Council on Wednesday 13th December 2017

1.6 In light of the 2018-19 TM regulatory framework having yet to be finalised, the Council's external treasury management advisors, Arlingclose, have advised its clients to continue to prepare for, and obtain full Council approval for the 2018-19 Treasury Management Strategy, based on the current 2011 Codes of practice. In any case, the requirement for a Treasury Management Strategy remains unchanged in the 2017 Code. The 2018-19 Treasury Management Strategy is therefore still based on the current CIPFA Codes and current DCLG guidance. It is intended that in preparation for the 2019-20 financial year, the Council's Treasury Management strategy will formally adopt the 2017 CIPFA Code revisions, and any relevant updated DCLG guidance on local Authority Investments.

1.7 Cabinet is responsible for the implementation and monitoring of the treasury management policies. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management. Recent training for members of this Committee was provided in November 2017 by the Council's treasury management advisors.

1.8 This report will:

(i) outline the outlook for interest rates and credit risk, and in light of this, recommend an investment strategy for the Council to follow in 2018-19;

(ii) outline the current and estimated future levels of Council borrowing (internal and external) and recommend a borrowing strategy for 2018-19;

(iii) review the methodologies adopted for providing for the repayment of debt and recommend a revised policy for calculating the Minimum Revenue Provision from 2017-18 onwards;

(iv) review other treasury management matters including the policy on the use of financial derivatives, prudential indicators, the use of consultants, and the policy on charging interest to the Housing Revenue Account

2 Information required to take a decision

The following paragraphs 2.1 to 2.4 have been provided by our Treasury Management external advisors, Arlingclose:

Economic Background

2.1 The major external influence on the Authority's treasury management strategy for 2018-19 will be the UK's progress in negotiating its exit from the European Union and agreeing future trading arrangements. The domestic economy remains relatively robust since the surprise outcome of the 2016 referendum, but there are indications that uncertainty over the future is now weighing on growth. Transitional arrangements may prevent a cliff-edge, but will also extend the period of uncertainty for several years. Economic growth is therefore forecast to remain sluggish throughout 2018-19.

2.2 Consumer price inflation reached 3.0% in September 2017 as the post referendum devaluation of sterling continued to feed through to imports. However, this effect is expected to fall out of year-on-year inflation measures during 2018, removing pressure on the Bank of England to raise interest rates.

Interest Rate Forecast

2.3 The Authority's treasury adviser (Arlingclose) case is for UK Bank of England Base Rate to remain at 0.50% during 2018-19**.** At the last Monetary Policy Committee the vote was unanimous to keep the base rate at 0.50%. Stilted progress in the EU exit negotiations, softening consumer spending and a tightening of consumer credit are expected to keep the rate low. The risk of a cut to zero or negative rates has diminished.

2.4 Longer-term interest rates have risen in the past year, reflecting the base rate rise to 0.50%. Arlingclose forecasts these to remain broadly constant during 2018-19, but with some volatility as interest rate expectations wax and wane with press reports on the progress of EU exit negotiations.

Borrowing and Investment – General Strategy for 2018-19

2.5 As at 31 March 2018, the Council is expected to have £575.8m of external debt liabilities and £30 million of investments (relevant figures highlighted in Table 1 below, and in more detail at Table 2). Forecast changes in these sums for the next three years are contained in the balance sheet analysis below:

Table 1: Balance Sheet Forecast

	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
General Fund CFR - Non PFI	426.4	458.9	493.9	512.0
PFI	52.3	49.3	45.8	42.6
HRA CFR - Non PFI	182.8	175.3	170.7	165.7
PFI	54.9	52.9	50.5	48.1
Total CFR	716.4	736.4	760.9	768.4
Less: PFI debt liabilities*	107.2	102.2	96.3	90.7
Borrowing CFR	609.2	634.2	664.6	677.7
Finance via;				
Deferred Liabilities	4.0	3.9	3.8	3.6
Internal Borrowing	136.6	136.6	136.6	136.6
External Borrowing	468.6	493.7	524.2	537.5
Total	609.2	634.2	664.6	677.7
Investments	30.0	30.0	30.0	30.0

**£107.2m PFI Liabilities (£5.0m falling due in 2018/19)*

2.6 There are many underlying assumptions within the internal borrowing figures above which include the following;

- No movement in useable reserves, with any potential use of reserves to support the Revenue MTFP offset by increased capital receipts from 2019-20 of £2.0m and due to change of MRP policy this will provide greater resilience and financial grip to the Council.

2.7 The Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing or other long-term liability arrangements. An authority can choose to borrow externally to fund its CFR. If it does this, it is likely that it would be investing externally an amount equivalent to its total reserves, balances and net creditors. Alternatively, an authority can choose not to invest externally but instead use these balances to effectively "borrow internally" and minimise external borrowing. In between these two extremes, an authority may have a mixture of external and internal investments / external and internal borrowing.

2.8 Prior to 2009-10 the Council's policy had been to borrow up to its CFR, investing externally the majority of its balances. With the onset of instabilities in the financial markets and the economic downturn, the policy changed to one of ensuring the security of the Council's balances. This coincided with dramatic falls in investment returns, making the budgetary benefit of maximising external borrowing more marginal. Thus, the Council has chosen to steadily reduce monies invested externally and instead has used balances to offset new borrowing requirements.

2.9 The Service Director of Finance, IT and Transactional Services supports the approach that the borrowing and investment strategy for 2018-19 continues to place emphasis on the security of the Council's balances. Although credit conditions have been steadily improving, the global recovery is still fragile and regulation changes have increased local authority exposure in the event of a possible default of any financial institutions.

2.10 Until there is further improved confidence in the financial markets, it is recommended that balances should only be invested to a level which is perceived to be reasonably secure and which is needed to meet the day-to-day cash flow requirements of the Council (around £30 million). The remainder of the balances will be effectively invested internally, that is used to offset borrowing requirements.

2.11 In terms of the Council investing more balances and trying to make a return to help budgetary concerns, this would be both difficult and increase risk. To increase investment balances, the Council would have to borrow. To make a material return on investments, the Council would have to invest for longer periods than the borrowing period and/or invest with lower rated bodies.

Borrowing Strategy

2.12 The Council is forecast to hold around £575.8m of external borrowing and other long-term liabilities as at 31 March 2018. This is analysed at Table 2 below:

Table 2 – year end estimate – 31 March 2018

	£m	%
PWLB loans (fixed rate)	286.6	50
LOBOs	76.6	13
Loan stock (fixed rate)	7.0	1
Other long term loans (fixed rate)	30.2	5
Temporary borrowing	68.2	12
Total external borrowing	**468.6**	
Other Long Term Liabilities (mainly PFI)	107.2	19
Total external debt liabilities	**575.8**	

2.13 It is proposed to keep new borrowing to short periods, thus taking advantage of the very low interest rates forecast for the next few years. This will help mitigate budgetary pressures, whilst acknowledging there may be increased interest rate risk in the longer term. This will be monitored and advice sought from Arlingclose.

2.14 The approved sources of borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any bank or building society authorised to operate in the UK
- Other local authorities
- Capital market bond investors
- Local Capital Finance Company and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds

2.15 Historically, the biggest source of borrowing for local authorities has been PWLB loans. These Government loans have offered value for money and also flexibilities to restructure and make possible savings. The Council also has LOBO (Lender's Option, Borrower's Option) loans, where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council will take the option to repay at no cost, if it has the opportunity to do so. The Council's current limit on LOBO borrowing is set at 30% of long-term debt.

2.16 The Local Capital Finance Company was established in 2014 by the Local Government Association as an alternative source of local authority finance. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a joint and several guarantee over the very small risk that other local authority borrowers default on their loans; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

2.17 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some of the higher rate loans with new loans at lower interest rates where this will lead to an overall saving or reduce risk.

2.18 Borrowing policy and performance will be monitored throughout the year and will be reported to Members via a Half Yearly Report and also an Outturn Report in line with approved guidance.

Investment Strategy

2.19 Investment guidance issued by DCLG requires that an investment strategy, outlining the authority's policies for managing investments in terms of risk, liquidity and yield, should be approved by full Council or equivalent level, before the start of the financial year. This strategy can then only be varied during the year by the same executive body.

2.20 The guidance splits investments into two types – specified and non-specified.

- Specified investments are those offering high security and liquidity. All such investments should be in sterling with a maturity of no more than a year. Investments made with the UK Government and a local authority automatically count as specified investments, as do investments with bodies or investment schemes of "high credit quality". It is for individual authorities to determine what they regard as "high credit quality"; and

- Non-specified investments have greater potential risk, being either investments of "lower credit quality" or investments made for longer than one year.

2.21 A new regulatory update came into force from 3rd January 2018; the second Markets in Financial Instruments Directive (MiFID II), which meant that the Council had to formally apply to renew its status as a 'professional client' (also referred to as the 'opt up' option), but subject to certain criteria being met. Prior to this regulation update, coming into force, the Council, as with all local authorities, had been treated by regulated financial services firms as professional clients by default.

2.22 The Council would need to opt up for the purposes of being able to continue to invest with, or borrow from, regulated services firms including banks, brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. Otherwise, the default status of the Council would be 'retail client.'

2.23 The key advantage of opting up was set out in the half-yearly 2017-18 treasury management monitoring report, namely that opting up was necessary in order to continue to have the widest opportunities to invest within the scope of the Council's current treasury management strategy, from 3rd January 2018; in particular with regard to continued access to money market funds, not available to retail clients.

2.24 Following full Council approval on 13th December 2017, officers have now successfully 'opted up' the Council to professional client status, effective from 3rd January 2018.

2.25 A key criteria for continuing professional client status is that the authority must have an investment balance of at least £10 million. The proposed investment strategy in para 2.25 below will ensure this this particular criteria will be met throughout 2018-19.

2.26 It is recommended that the investment strategy for 2018-19 continues to maintain a low risk strategy giving priority to security and liquidity, and as such invest an average of around £30 million externally, for the purpose of managing day-to-day cash flow requirements. The remaining balances will be invested "internally", offsetting borrowing requirements.

2.27 Having successfully opted up to professional client status, the Council's investment criteria remain unchanged from current, and are detailed at Appendix A. They contain specified and non-specified investment opportunities, recognising through the limits proposed, the slightly higher risk of non-specified investments.

2.28 The Council uses credit ratings from the three main rating agencies - Fitch, Moody's and Standard & Poor's to assess the risk of investment defaults (Appendix B). The lowest credit rating of an organisation will be used to help determine credit quality. Long term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade.

2.29 Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria:

- No new investments will be made;
- Any existing investments that can be recalled at no cost will be recalled;
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade ("negative watch") so that it is likely to fall below the required criteria, then no further investments will be made in that organisation until the outcome is announced. This policy will not apply to negative outlooks.

2.30 Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the approved criteria.

2.31 If the UK enters into a recession in 2018-19, there is a small chance that the Bank of England could set its Base Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short term investment options. This situation already exists in many other countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

2.32 Annual cash flow forecasts are prepared which are continuously updated. Investment policy and performance will be monitored continuously and will be reported to Members during the year and as part of the annual report on Treasury Management.

Statement of Policy on the Minimum Revenue Provision (MRP)

2.33 MRP is the statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement – CFR), ie the borrowing taken out in order to finance capital expenditure.

2.34 Prior to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008, which came into force on 31 March 2008, the set aside was specified as a percentage of a council's CFR (2% for HRA debt, 4% for General Fund). The current Regulations are less prescriptive with a requirement to ensure the amount set aside is deemed to be **prudent**, although there is accompanying current DCLG guidance which sets out possible methods a council might wish to follow.

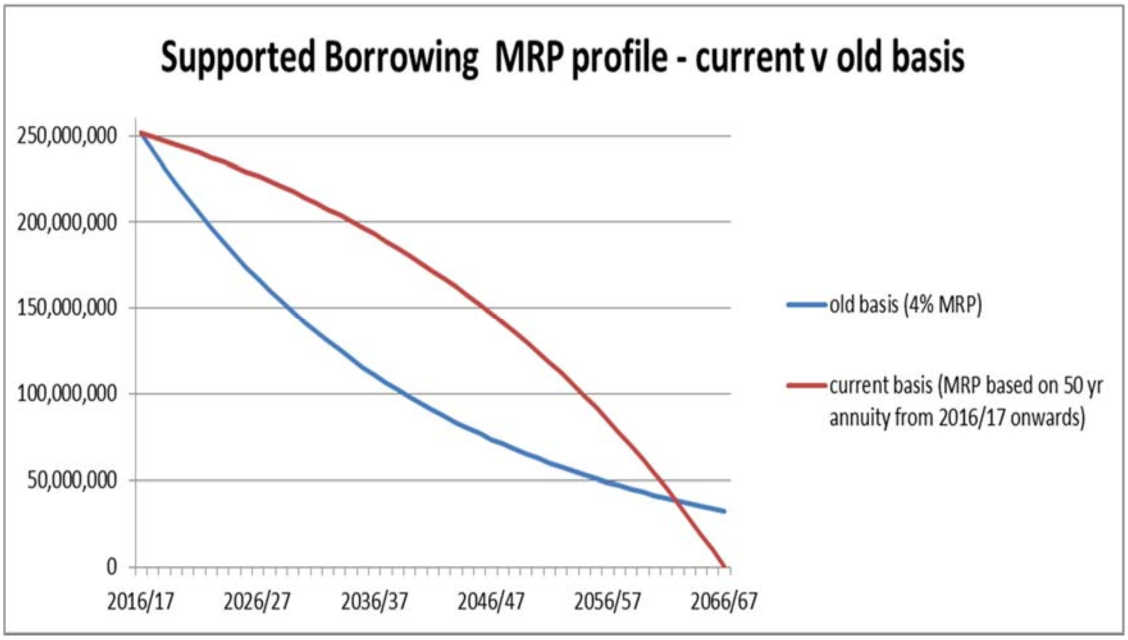
2.35 Paragraph 3 of the current DCLG guidance recommends that authorities prepare a statement of policy on making MRP in respect of the forthcoming year, with approval by full council before the start of the financial year. If these proposals subsequently need to be varied, a revised statement should be put to full council.

MRP – current approach

2.36 The Council formally approved a revised calculation for MRP for supported borrowing, effective from 2016-17 onwards, against the outstanding balance of £251m supported borrowing as at that date. This intention was to more 'prudently' align MRP to the average useful life of the assets; in this instance, 50 years.

2.37 The revised MRP calculation was based on the annuity method, which is a more prudent basis for providing for assets that provide a steady flow of benefits over their useful life. The pre-existing calculation had been based on 4% reducing balance basis. The following graph illustrates the impact of the revised MRP calculation implemented on the supported borrowing debt re-payment profile, based on a 50 year annuity period.

Graph – impact of current MRP calculation on supported borrowing debt repayment from 2016-17, over 50 years



2.38 The above graph illustrates that under the revised MRP, the outstanding supported borrowing debt of £251m would effectively be paid off 'prudently', by 2066-67. Under the pre-existing method, there would still have been about £32m debt outstanding in 50 years' time. The revised approach ensured that future Council Tax payers would not be burdened with the cost of debt relating to assets that may no longer be in use.

2.39 The above revision had a significant overall impact on the annual MRP calculation from current budgeted, reducing the annual MRP charge by £8m in 2016-17, with ongoing , albeit reducing, annual revenue treasury management benefits over the following 13 years, before MRP costs started to increase again. The budgeted impact at the time was factored into approved 2017-21 budget plans. The prudential indicator relating to the ratio of financing costs to net revenue stream also reduced from 12.83% pre-existing, to 9.0% revised, by 2021-22.

2.40 The annual budget report to full Council on 15th February 2017 further noted that many Local Authorities were also either reviewing, or had recently revised, their MRP calculations at the same time as this Council. Other aspects of the MRP calculation had also been reviewed by officers, but that officers were not proposing further changes at this time. This included the potential further backdating of annuity calculations on supported borrowing debt outstanding, a further 10 years to 2007/08; allowable under the 2008 Regulations (see paragraph 2.33 earlier).

2.41 The rationale for deferring the potential further backdate to 2007-08 was pending further clarification from both the National Audit Office and Department of Communities & Local Government (DCLG), who were raising some concerns about the approach some Local Authorities were taking with regard to interpretation of the notion of 'prudent' within the 2008 Regulations, to their own MRP calculations.

2.42 With regard to Kirklees Council's approach, the Council's external auditors, KPMG, raised no concerns with the subsequent MRP revision implemented from 2016-17 onwards. As subsequently reported to Corporate Governance & Audit Committee on 17th November 2017, KPMG gave an unqualified opinion on the Council's 2016-17 financial statements, which incorporated the MRP revision.

MRP – further revision proposed from 2017-18 onwards

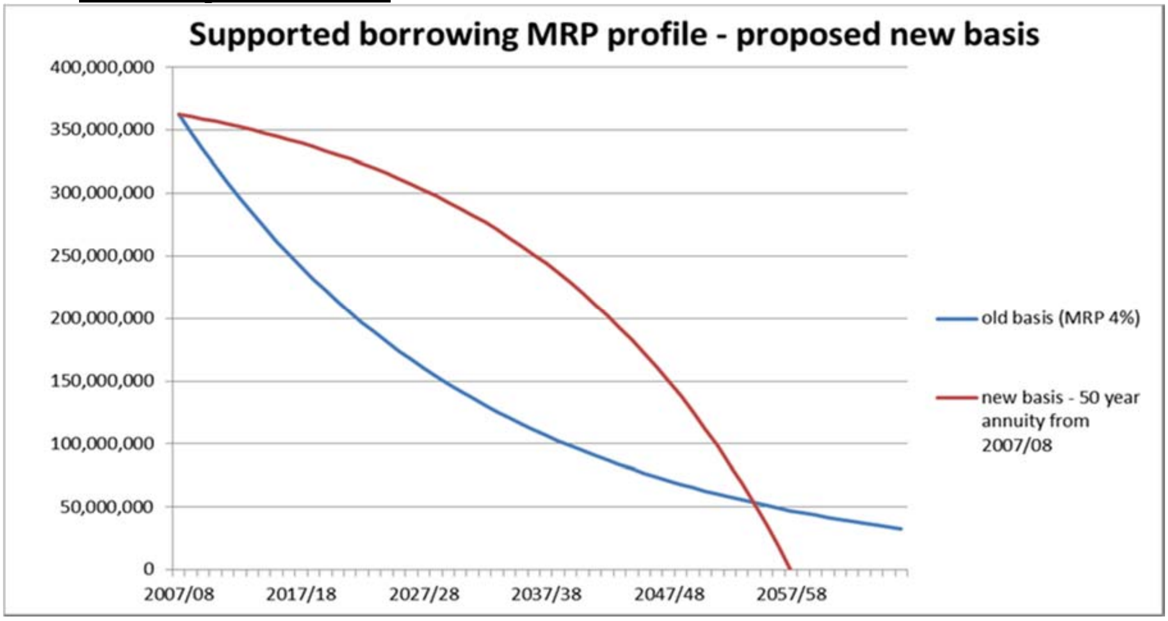
2.43 Officers have further reviewed the MRP calculation for supported borrowing and are proposing a further revision; to 'backdate' the current 50 year annuity basis to 2007-08. This revised MRP would be implemented from 2017-18 onwards.

2.44 The officer rationale for this further revision reflects a more consistent application of the 50 year annuity calculation for supported borrowing outstanding, to 2007-08;the date that the 2008 regulations effectively relaxed the pre-existing prescriptive 4% reducing balance basis for the MRP calculation.

2.45 This proposal also takes account, in conjunction with advice from the Council's external treasury management advisors, Arlingclose, a risk assessment of a recent DCLG consultation which closed on 22 December 2017, on proposals to update their own MRP guidance to Local Authorities from April 2018 onwards (see also, paragraphs 2.63 below).

2.46 The following graph illustrates the impact of the proposed further MRP revision on the supported borrowing debt repayment profile:

Graph – impact of the revised 50 year annuity MRP calculation on supported borrowing to 2007-08:



2.47 Under the revised approach, debt will still be paid off 'prudently' over a 50 year period, but backdated to 2007-08; effectively paid off by 2056-57. The 50 year annuity calculation applied here relates to the supported borrowing debt as at the start of 2007-08; £362m. Under the pre-existing 4% reducing balance method, there would still have been about £50m debt outstanding by 2056-57.

2.48 The proposed MRP revision results in a calculated 'over-provision' of MRP charges made between 2007-08 and 2015-16 compared to the original 4% reducing balance MRP calculation. The over-provision is £91.2m and is summarised at Table 3 below :

Table 3 - *MRP over-provision ; 2007-18 to 2015-16*

Year	Original MRP £	Revised MRP £	Over-provision £
2007-08	14,396,791	1,853,624	12,543,167
2008-09	13,843,068	1,942,412	11,900,656
2009-10	13,310,643	2,035,454	11,275,189
2010-11	12,798,695	2,132,952	10,665,743
2011-12	12,306,437	2,235,121	10,071,316
2012-13	11,833,113	2,342,183	9,490,930
2013-14	11,356,820	2,454,374	8,902,446
2014-15	11,119,891	2,571,938	8,547,953
2015-16	10,476,295	2,695,134	7,781,161
Total	**111,441,753**	**20,263,192**	**91,178,561**

2.49 In terms of options for un-winding the £91.2m over-provision back into general fund revenue, it could be 'front loaded' i.e. maximise the benefit of the un-winding in the early years. However, this unwinding cannot be more than the overall annual MRP calculation, as otherwise the Council would end up in a negative MRP position, which is not allowable under accounting rules. The maximum unwind allowable in

2017-18 would be £13.3m, £13.4m in 2018-19 and £13.6m in 2018-19 (see also paragraph 2.55 further below).

2.50 Some external auditors have also not looked favourably on Councils that have effectively maximised the unwinding of any calculated over-provision, to the extent that there has effectively meant nil MRP charge for the year in question; the auditor argument being that zero annual MRP provision is deemed not prudent.

2.51 An alternative approach could be to stretch the un-wind of the over-provision over the remaining 40 years of the supported borrowing annuity calculation. On an equal instalment basis, this would equate to an annual 'un-wind' of about £2.2m. However, in the context of the overall scale of the over-provision calculation, this approach could be seen as a potentially overly conservative un-wind profile.

2.52 The officer proposal here is to un-wind the £91.2m over-provision over a ten year time-frame, from 2017-18 to 2026-27; equivalent to £9.1m un-wind each year for the next ten years. This still leaves a prudent annual MRP provision in the region of £4.2m in 2017-18, £4.4m in 2018-19 and £4.5m in 2019-20; rising incrementally thereafter over following years.

2.53 The revised MRP proposal re-profiles the repayment of the Capital Financing Requirement (CFR) and therefore increases profiled payments of MRP by approximately £50m, by 2056-57. The additional cost reflects the fact that the revised MRP prudently pays off the totality of the £362m supported borrowing debt by 2056-57, whereas under the old 4% MRP calculation, there would have been a remaining balance of £50m debt still by 2056-57.

2.54 The MRP proposal will also increase annual treasury management costs by £820k from 2018-19 onwards, due to the back-dating of the current 50 year annuity calculation to 2007/08.This has been factored into overall treasury management budget proposals in the annual budget report.

2.55 The overall annual MRP calculations built into treasury management budget proposals over the 2018-20 period, factoring in the back-dated MRP revision, is £13.3m in 2017-18 (current year), £13.4m in 2018-19 and £13.6m in 2019-20.

2.56 Reduced MRP charges in earlier years also means that the Council's capital financing requirement (CFR) correspondingly increases, because MRP charges effectively offset against the annual CFR requirement.

2.57 This means that an increased CFR requirement in the earlier years increases the Council's underlying need to borrow, with a consequential increase in annual interest charges. Current borrowing policy reflects historically low temporary borrowing rates. It is anticipated the increase in CFR requirement resultant from the MRP over-provision un-wind, based on current temporary borrowing rates of 0.45%, would equate to about £45k additional interest charges in 2018-19, with subsequent further £45k increases (i.e. £90k in 2019-20) each year thereafter, for the duration of the unwind period. Clearly any increase in interest rates over the period would increase the calculated interest charge.

2.58 The prudential indicator relating to ratio of financing costs to net revenue stream would also ‘re-base’ from an estimated 9.0% by 2021-22, to under 6.0%

2.59 No changes are proposed to the MRP policy for HRA debt. The current policy is to make provision in line with any scheduled external debt repayments, which currently approximates to 50 year write down, in line with asset lives.

2.60 It is proposed to amend the Council’s MRP Policy Statement for 2017-18 in order that the above changes in methodology apply from the current year (2017-18). The revised MRP Policy Statement is attached Appendix C.

2.61 The Council’s auditors, KPMG, are aware of the proposed changes but have stated that they cannot provide an opinion until more detailed work is done as part of the interim and final account audits.

2.62 The Council’s external treasury management advisors, Arlingclose, have also been commissioned by Council officers to advise on the proposed MRP revision above, taking into account both current DCLG and National Audit Office guidance, and DCLG’s proposed changes to its own current MRP guidance to Local Authorities.

2.63 Arlinglose are of the view that the MRP revision proposals set out in this report are within current DCLG and National Audit Office guidelines. DCLG’s proposed updated guidance on MRP includes the following key highlights:

i) MRP cannot be a negative charge and can only be zero if the Council’s CFR is nil or negative, or if the charge is fully reduced by reversing previous overpayments;

ii) where a local authority has changed the methodology that it uses to calculate prudent provision and generated what the current guidance calls an ‘overpayment’ (over-provision), it can continue to incorporate that overpayment into future calculations of prudent provision;

iii) maximum asset life used in an MRP calculation of 40 years, except freehold land where the maximum is 50 years. This applies to any calculation method using asset lives.

2.64 Arlingclose’s interpretation of the above is that if the Council puts its proposed MRP back-date revision into its MRP policy now, then the Council will be able to continue to unwind the backdated over-provision, over future years. If the Council wishes to take this opportunity, it must do so as soon as is practical. However, the above proposals remain draft pending final confirmation of the updated guidance from DCLG, still pending at the time of writing this report.

2.65 Officers recommend that the revenue resource impact of the proposed over-provision unwind be transferred to Council reserves by default, as part of the Council’s overall budget strategy and approach, ring-fenced for future consideration. This is also set out in as part of the overall annual budget report to Cabinet on 30th January and full Council on 14 February 2018.

Policy on the Use of Financial Derivatives

2.66 Local authorities (including this Council) have in the past made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans). The Localism Act 2011 includes a general power of competence that appears to remove the uncertain legal position over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The latest CIPFA Code requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

2.67 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where it is confident it has the powers to enter into such transactions. They will only be used for the prudent management of its financial affairs and never for speculative purposes and where it can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to.

2.68 Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Non-Treasury Investments

2.69 Although not classed as treasury management activities and therefore not covered by the current CIPFA Code or the CLG Guidance, the Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, loans to local businesses and landlords, or as equity investments and loans to the Authority's subsidiaries. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy.

Treasury Management Indicators

2.70 The Council is asked to approve certain treasury management indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. However, if these are set to be too restrictive they will impair the opportunities to reduce costs. The proposed indicators are set out in Appendix D.

Other Matters

2.71 The DCLG Investment Guidance also requires the Council to note the following matters each year as part of the investment strategy:

(i) *Investment Consultants*

The Council's adviser is Arlingclose Limited. The services received include:

- Advice and guidance on relevant policies, strategies and reports;
- Advice on investment and debt management;
- Notification of credit ratings and other information on credit quality;
- Reports on treasury performance;
- Forecasts of interest rates and economic activity; and
- Training courses.

The quality of the service is monitored on a continuous basis by the Council's treasury management team.

(ii) *Investment Training*

The needs of the Council's treasury management staff for training in investment management are assessed on a continuous basis, and formally on a 6-monthly basis as part of the staff appraisal process. Additionally training requirements are assessed when the responsibilities of individual members of staff change. Staff attend training courses and seminars as appropriate.

(iii) *Investment of money borrowed in advance of need*

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long term value for money. However, as this would involve externally investing such sums until required and thus increasing exposures to both interest rate and principal risks, it is not believed appropriate to undertake such a policy at this time.

(iv) Policy on charging interest to the Housing Revenue Account (HRA)

Following the reform of housing finance, the Council is free to adopt its own policy on sharing interest costs and income between General Fund and the HRA. The CIPFA code recommends that authorities state their policy each year in the strategy report.

On 1 April 2012, the Council notionally split each of its existing long term loans into General Fund and HRA pools. New long term loans borrowed will be assigned in their entirety to one pool or the other. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. Interest will be applied to this balance using the authority's average investment rate.

3 Implications for the Council

The strategies outlined have been reflected in the treasury management and HRA budgets.

4 Consultees and their opinions

Arlingclose, Treasury Management advisors.

5 Next steps

Treasury management performance will be monitored and reported to members during the year.

6 Officer recommendations and reasons

Corporate Governance and Audit Committee and Cabinet recommend the following for approval by Council:

(i) the borrowing strategy outlined in paragraphs 2.12 to 2.18;
(ii) the investment strategy outlined in paragraphs 2.19 to 2.32 and Appendix A;
(iii) the policy for provision of repayment of debt (MRP) outlined in Appendix C of the report, which reflects the changes in policy outlined in paragraph 2.33 to 2.65, effective from 2017-18 onwards;
(iv) the treasury management indicators in Appendix D;
(v) to note officer proposals to re-fresh the treasury management strategy for financial year 2019-20 to reflect revised 2017 CIPFA Treasury Management & Prudential Codes, and updated DCLG Investment strategy and MRP guidance to Local Authorities (still pending at the time of writing this report)

7 Cabinet Portfolio Holder recommendation

The report and recommendations be submitted to Council on 14 February 2018.

8 Contact officer

Eamonn Croston	Head of Accountancy & Finance	01484 221000
James Buttery	Finance Manager	01484 221000

9 Background Papers and History of Decisions

CIPFA's Code of Practice on Treasury Management in the Public Services; CIPFA's Prudential Code for Capital Finance in Local Authorities; Guidance on Local Government Investments (DCLG 2010); The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008; Localism Act 2011.
CIPFA Treasury Management Code and Prudential Code 2017
DCLG consultations; MRP Guidance and Investment Strategies for Local Authorities

10 Service Director responsible

Debbie Hogg 01484 221000

Investment Policy for 2018-19

The guidance splits investments into two types – specified and non-specified.

- Specified investments are those offering high security and liquidity. All such investments should be in sterling with a maturity of no more than a year. Investments made with the UK Government and a local authority automatically count as specified investments, as do investments with bodies or investment schemes of "high credit quality". It is for individual authorities to determine what they regard as "high credit quality"; and

- Non-specified investments have greater potential risk, being either investments of "lower credit quality" or investments made for longer than one year.

Specified investments:

- The Council is able to invest an unlimited amount with the UK Government for up to 6 months.
- The Council is able to invest up to £10 million and up to three months with UK banks and building societies with a "high to upper medium grade" credit rating.
- The Council is able to invest up to £10 million and up to two months with foreign banks with a "high to upper medium grade" credit rating.
- The Council is able to invest up to £10 million and up to two months with individual local authorities.
- The Council is able to invest up to £10 million in individual MMFs (instant access or up to 2 day notice). There will be an overall limit of £40 million for MMFs (non-government funds), plus up to £10 million invested in a fund backed by government securities.

Non-specified investments:

- The Council is able to invest up to £3 million and up to two months with individual UK banks and building societies with a mid "medium grade" credit rating.
- The Council is able to invest up to £1 million and up to two months with certain unrated building societies as approved by the Council's treasury advisors.
- The Council adopts an overall limit of £10 million for non-specified investments.

The maximum limits apply to any one counter-party and to a banking group rather than each individual bank within a group.

The Council will not place direct investments in companies as defined by the Carbon Underground 200 on 1 February each year.

Specified

	Short-term Credit Ratings / Long-Term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at Dec 2017
	Fitch	**Moody's**	**S & P**	**£m**	**Period (3)**	
UK Banks / Building Societies (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10	<3mth	HSBC Lloyds Group Santander UK Nationwide BS Coventry BS Close Bros
	AAA,AA+,AA, AA-,A+,A	Aaa,Aa1,Aa2, Aa3,A1,A2	AAA,AA+,AA, AA-,A+,A			
Foreign Banks (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10	<2mth	Svenska Handelsbanken
	AAA,AA+,AA, AA-,A+,A	Aaa,Aa1,Aa2, Aa3,A1,A2	AAA,AA+,AA, AA-,A+,A			
MMF (2)	-	-	-	10	Instant access/ up to 2 day notice	
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth	
UK local authorities (Fixed term deposits)	-	-	-	10	<2mth	

Non-Specified (1)

	Short-term Credit Ratings / Long-Term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at Dec 2017
	Fitch	**Moody's**	**S & P**	**£m**	**Period (3)**	
UK Banks / Building Societies (Fixed term deposits)	F1,F2	P-1,P-2	A-1,A-2	3	<2mth	Barclays Leeds BS Nottingham BS RBS Yorkshire BS
	Higher than BBB	Higher than Baa2	Higher than BBB			
Unrated Building Societies (Fixed term deposits)	-	-	-	1	<2mth	Darlington, Scottish, Furness, Hinckley & Rugby, Leek, Marsden, Loughborough, Mansfield, Nat Counties, Mkt Harborough, Newbury, Melton Mowbray, Tipton & Coseley, Stafford Railway.

(1) Overall limit of £10 million.
(2) Overall limit for investments in MMFs of £50 million – up to £40 million in non-government funds, plus up to £10 million in a fund backed by government securities.
(3) The investment period begins from the commitment to invest, rather than the date on which funds are paid over.

Credit ratings

<table>
<tr><th colspan="2">Moody's</th><th colspan="2">S&P</th><th colspan="2">Fitch</th><th></th></tr>
<tr><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th>Long-term</th><th>Short-term</th><th></th></tr>
<tr><td>Aaa</td><td rowspan="6">P-1</td><td>AAA</td><td rowspan="4">A-1+</td><td>AAA</td><td rowspan="4">F1+</td><td>Prime</td></tr>
<tr><td>Aa1</td><td>AA+</td><td>AA+</td><td rowspan="3">High grade</td></tr>
<tr><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>A1</td><td>A+</td><td rowspan="2">A-1</td><td>A+</td><td rowspan="2">F1</td><td rowspan="3">Upper medium grade</td></tr>
<tr><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>A3</td><td rowspan="2">P-2</td><td>A-</td><td rowspan="2">A-2</td><td>A-</td><td rowspan="2">F2</td></tr>
<tr><td>Baa1</td><td>BBB+</td><td>BBB+</td><td rowspan="3">Lower medium grade</td></tr>
<tr><td>Baa2</td><td rowspan="2">P-3</td><td>BBB</td><td rowspan="2">A-3</td><td>BBB</td><td rowspan="2">F3</td></tr>
<tr><td>Baa3</td><td>BBB-</td><td>BBB-</td></tr>
<tr><td>Ba1</td><td rowspan="14">Not prime</td><td>BB+</td><td rowspan="6">B</td><td>BB+</td><td rowspan="6">B</td><td rowspan="3">Non-investment grade speculative</td></tr>
<tr><td>Ba2</td><td>BB</td><td>BB</td></tr>
<tr><td>Ba3</td><td>BB-</td><td>BB-</td></tr>
<tr><td>B1</td><td>B+</td><td>B+</td><td rowspan="3">Highly speculative</td></tr>
<tr><td>B2</td><td>B</td><td>B</td></tr>
<tr><td>B3</td><td>B-</td><td>B-</td></tr>
<tr><td>Caa1</td><td>CCC+</td><td rowspan="5">C</td><td rowspan="5">CCC</td><td rowspan="5">C</td><td>Substantial risks</td></tr>
<tr><td>Caa2</td><td>CCC</td><td>Extremely speculative</td></tr>
<tr><td>Caa3</td><td>CCC-</td><td rowspan="3">In default with little prospect for recovery</td></tr>
<tr><td rowspan="2">Ca</td><td>CC</td></tr>
<tr><td>C</td></tr>
<tr><td>C</td><td rowspan="3">D</td><td rowspan="3">/</td><td>DDD</td><td rowspan="3">/</td><td rowspan="3">In default</td></tr>
<tr><td>/</td><td>DD</td></tr>
<tr><td>/</td><td></td></tr>
</table>

STATEMENT OF POLICY ON THE MINIMUM REVENUE PROVISION (REPAYMENT OF DEBT)

1. Background

1.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 requires authorities to make an amount of MRP which the authority considers "prudent".

1.1 The regulation does not itself define "prudent provision". However, guidance issued alongside the regulations makes recommendations on the interpretation of that term.

2 Proposed policy for 2017-18 onwards

2.1 The Service Director - Financial Management, Risk, IT & Performance recommends the following policy for making prudent provision for MRP:

(i) General Fund Borrowing (pre 1st April 2008) - Provision to be made over the estimated average life of the asset (as at 1 April 2008) for which borrowing was taken - deemed to be 50 years (annuity calculation).

(ii) Calculations to compare this to the previous MRP charge indicate that between 2007-08 and 2015-16 the Council provided an additional £91.2m with which it will "un-wind" over the next 10 years.

(iii) General Fund Prudential Borrowing – Provision to be made over the estimated life of the asset for which borrowing is undertaken. Provision to commence in the year following purchase (annuity calculation). Where large loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

(iv) HRA Borrowing - Provision to be made for debt repayments equal to its share of any scheduled external debt repayments.

(v) PFI schemes - Provision to equal the part of the unitary payment that writes down the balance sheet liability, together with amounts relating to lifecycle costs incurred in the year.

TREASURY MANAGEMENT INDICATORS

Gross Debt and the Capital Financing Requirement (CFR)
The Code requires that where gross debt is greater than the CFR, the reasons for this should be clearly stated in the annual strategy. This does not apply to this Council as its gross debt will not exceed the CFR.

Interest Rate Exposures
While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Code requires the setting of upper limits for both variable rate and fixed interest rate exposure.

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2018-19, 2019-20 and 2020-21 of 100% of its net interest payments. It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2018-19, 2019-20 and 2020-21 of 40% of its net interest payments.

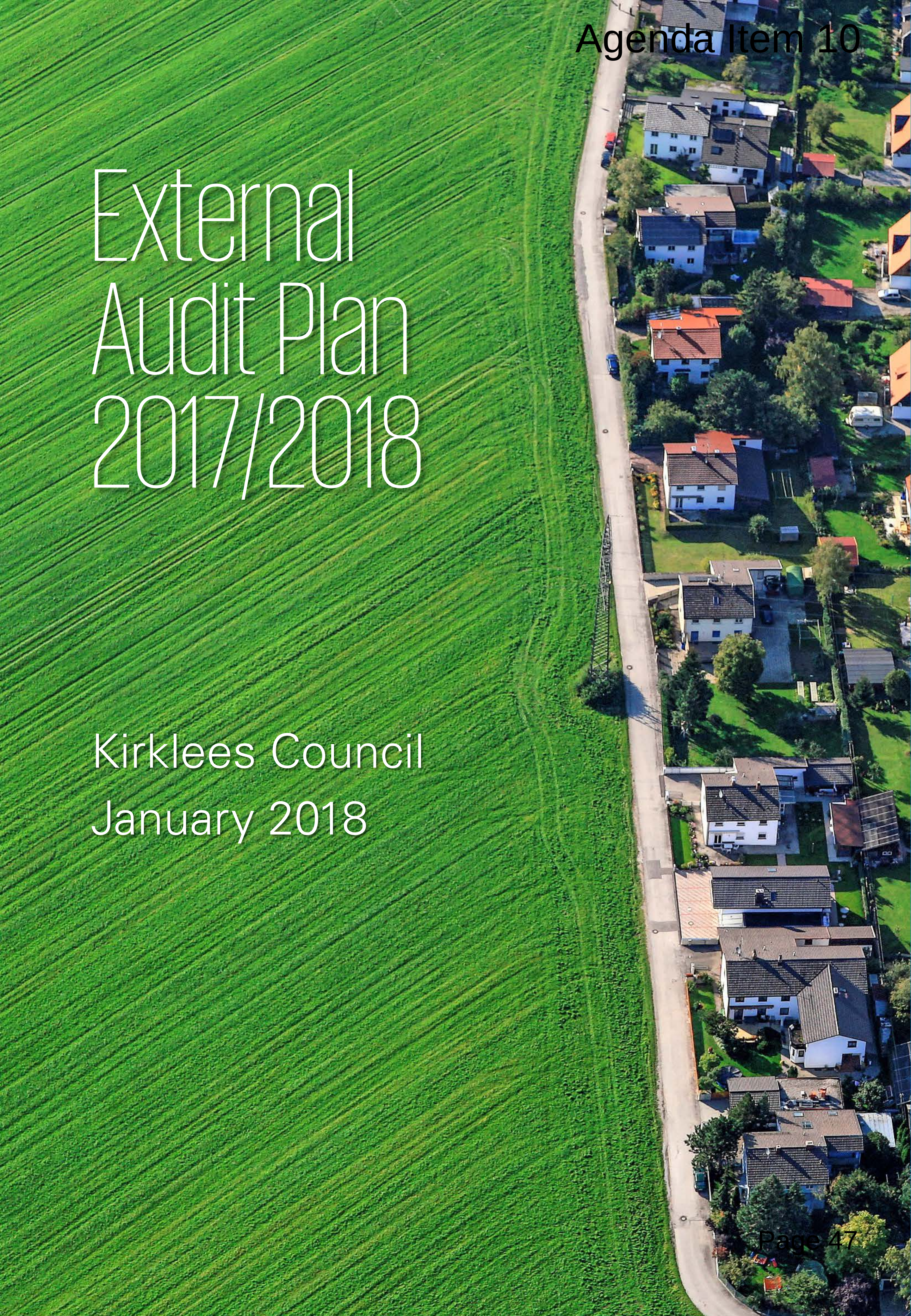
This means that fixed interest rate exposures will be managed within the range 60% to 100%, and variable interest rate exposures within the range 0% to 40%.

Maturity Structure of Borrowing
This indicator is designed to prevent the Council having large concentrations of fixed rate debt* needing to be replaced at times of uncertainty over interest rates. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed rate		
	Upper Limit (%)	**Lower Limit (%)**
Under 12 months	20	0
Between 1 and 2 years	20	0
Between 2 and 5 years	60	0
Between 5 and 10 years	80	0
More than 10 years	100	20

*LOBOs are classed as fixed rate debt unless it is considered probable that the loan option will be exercised.

Total principal sums invested for periods longer than 364 days
The Council is not intending to invest sums for periods longer than 364 day.



External Audit Plan 2017/2018

Kirklees Council

January 2018

Summary for Corporate Governance and Audit Committee

Financial statements

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability in terms of the accounting standards the Authority need to comply with. Despite this, the deadline for the production and signing of the financial statements has been significantly advanced in comparison to year ended 31 March 2017. We recognise that the Authority has successfully advanced its own accounts production timetable in prior years so as to align with the new deadlines. Due to staff changes within the accounts production team, however, we do feel that this represents a significant risk.

In order to meet the revised deadlines it will be essential that the draft financial statements and all prepared by client documentation is available in line with agreed timetables. Where this is not achieved there is a significant likelihood that the audit report will not be issued by 31 July 2018.

Materiality

Materiality for planning purposes has been set at **£15 million**.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£0.75 million**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- **Valuation of PPE** – Whilst the Council operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We will consider the way in which the Council ensures that assets not subject to in-year revaluation are not materially misstated;
- **Pension Liabilities** – The valuation of the Council's pension liability, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We will review the processes in place to ensure accuracy of data provided to the Actuary and consider the assumptions used in determining the valuation.
- **Faster Close** – As set out above, the timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We will work with the Council in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work; and

Summary for Corporate Governance and Audit Committee (cont.)

Value for Money Arrangements work	Our risk assessment regarding your arrangements to secure value for money has identified the following VFM significant risks to date: – **Delivery of Budgets** – As a result of reductions in central government funding, and other pressures, the Council is having to make additional savings beyond those from prior years. We will consider the way in which the Council identifies, approves, and monitors both savings plans and how budgets are monitored throughout the year; and – **Children's Services Arrangements** – On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children's Services overall in Kirklees as Inadequate. Following this the Council has made fundamental changes in this area including a partnership arrangement with Leeds City Council (LCC) to improve Children's Services. The Commissioner report published in September 2017 noted the Council did not have the leadership and management capacity and capability to drive forward the necessary changes, and their recommendation was to progress the partnership arrangements with LCC to deliver the improvements. This issue impacted on our VFM conclusion and we issued a qualified 'except for' VFM conclusion in 2016/17. We will consider the degree to which changes that have been made in the Council's arrangements impact on our VFM conclusion for 2017/18. **See pages 11 to 16 for more details**
Logistics	Our team is: – Rashpal Khangura - Director – Emma Kirkby - Manager – Ben Haydon – Assistant manager More details are in **Appendix 2**. Our work will be completed in four phases from December to July and our key deliverables are this Audit Plan and a Report to Those Charged With Governance as outlined on **page 19**. Our fee for the 2017/18 audit is £158,729 (£164,549 2016/2017) see **page 18**. The fees for 2017/18 are in line with the scale fees published by PSAA.
Acknowledgements	We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2017/18 presented to you in March 2017, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice and the PSAA Statement of Responsibilities.

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

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

02 **Use of resources:**
Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

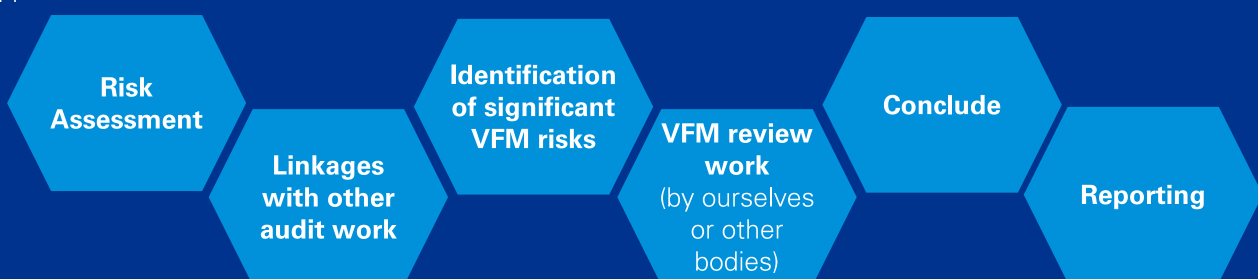
The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary. Any change to our identified risks will be reporting to the Corporate Governance and Audit Committee.

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.

Value for Money Arrangements Work

Our Value for Money (VFM) Arrangements Work follows a five stage process which is identified below. Page 9 provides more detail on the activities that this includes. This report concentrates on explaining the VFM approach for 2017/18.



Financial statements audit planning

Financial Statements Audit Planning

Our planning work takes place during December 2017 to January 2018. This involves the following key aspects:

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

Risk assessment

Auditing standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

01

Management override of controls

Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

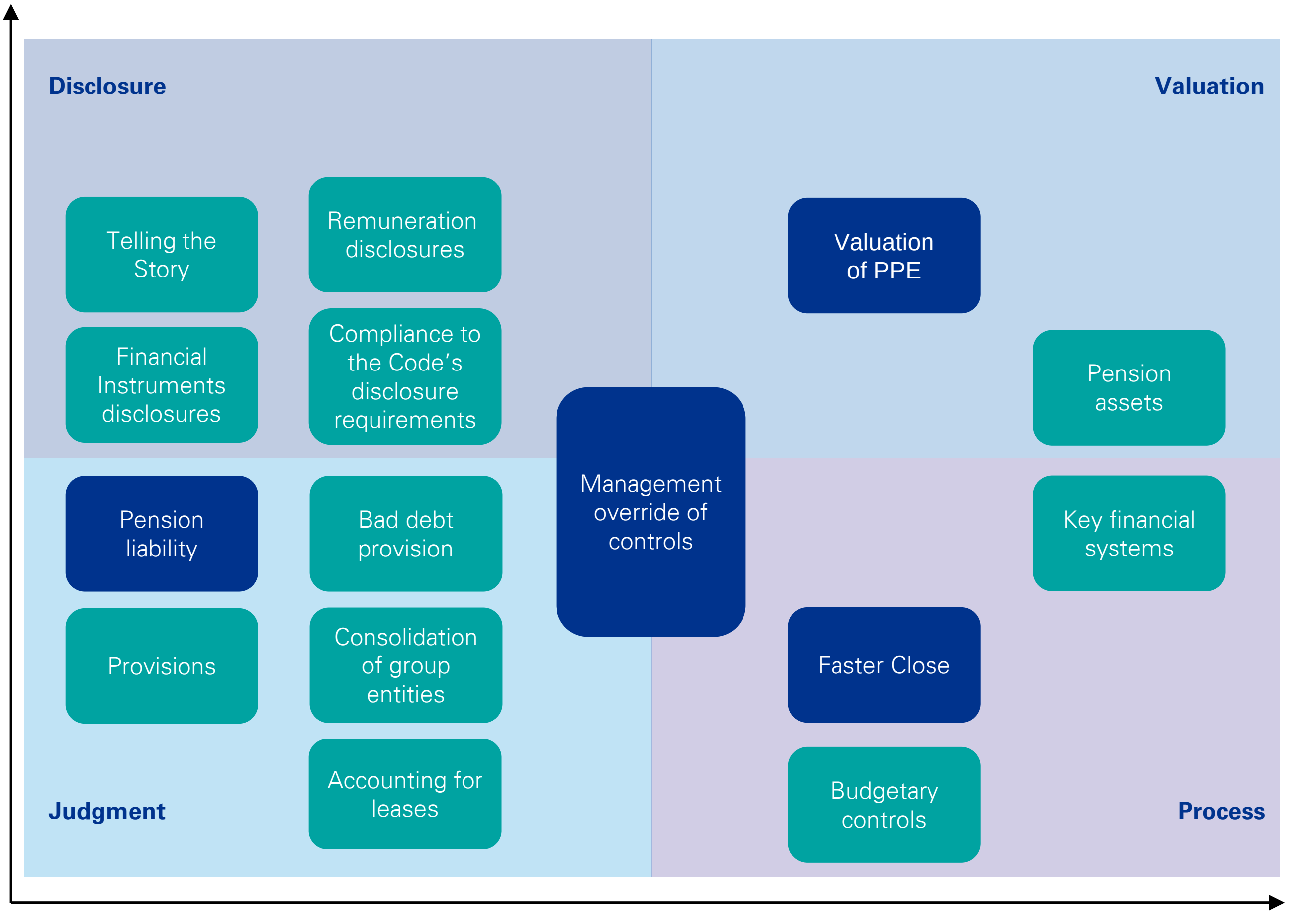
02

Fraudulent revenue recognition

We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Financial statements audit planning (cont.)

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



Keys: Significant risk | Other area of audit focus | Example other areas considered by our approach

Financial statements audit planning (cont.)

Significant Audit Risks

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

Risk:

Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.

Council Dwelling valuations are based on Existing Use Value, discounted by a factor to reflect that the assets are used for Social Housing. The Social Housing adjustment factor is prescribed in DCLG guidance, but this guidance indicates that where a valuer has evidence that this factor is different in the Council's area they can use their more accurate local factor. There is a risk that the Council's application of the valuer's assumptions is not in line with the statutory requirements and that the valuation is not supported by detailed evidence indicating that the standard social housing factor is not appropriate to use.

Approach:

We will review the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. We will also assess the risk of the valuation changing materially during the year.

In addition, we will consider movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations and review the methodology used (including testing the underlying data and assumptions).

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:

Pension Liabilities

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of West Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.

Approach:

As part of our work we will review the controls that the Council has in place over the information sent directly to the Scheme Actuary. We will also liaise with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This will include consideration of the process and controls with respect to the assumptions used in the valuation. We will also evaluate the competency, objectivity and independence of the Actuary.

We will review the appropriateness of the key assumptions included within the valuation, compare them to expected ranges, and consider the need to make use of a KPMG Actuary. We will review the methodology applied in the valuation by the Actuary.

In addition, we will review the overall Actuarial valuation and consider the disclosure implications in the financial statements.

Financial statements audit planning (cont.)

Significant Audit Risks (cont.)

Risk:

Faster Close

In prior years, the Council has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

During 2016/17, the Council started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 31 May. Whilst this was an advancement on the timetable applied in preceding years, further work is still required in order to ensure that the statutory deadlines for 2017/18 are met given the recent staffing changes in the accounts production team.

In order to meet the revised deadlines, the Council may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Corporate Governance and Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Corporate Governance and Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Council's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Approach:

We will continue to liaise with officers in preparation for our audit in order to understand the steps that the Council is taking in order to ensure it meets the revised deadlines. We will also look to advance audit work into the interim visit in order to streamline the year end audit work.

Where there is greater reliance upon accounting estimates we will consider the assumptions used and challenge the robustness of those estimates.

Financial statements audit planning (cont.)

Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent ‘misstatements’ unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Council, materiality for planning purposes has been set at £15 million, which equates to 1.3% percent of gross expenditure.

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

Prior Year Gross Expenditure: £1,167m (2016/17: £1,028m)

Materiality

£15m

1.3% of Expenditure

(2016/17: £15m, 1.5%)

£0.75m Misstatements reported to the corporate governance and audit committee (2016/17: £0.75m)

£10m Procedures designed to detect individual errors (2016/17: £11.25m)

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

Financial statements audit planning (cont.)

Reporting to the Corporate Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Corporate Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.75m million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Corporate Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

We will report:

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

Group audit

In addition to the Council the group accounts include the Kirklees Neighbourhood Housing Limited, which is not deemed to be significant in the context of the group audit.

We will reassess the significance of this subsidiary throughout our audit and will report any changes in our assessment to the Corporate Governance and Audit Committee.

Value for money arrangements work

VFM audit approach

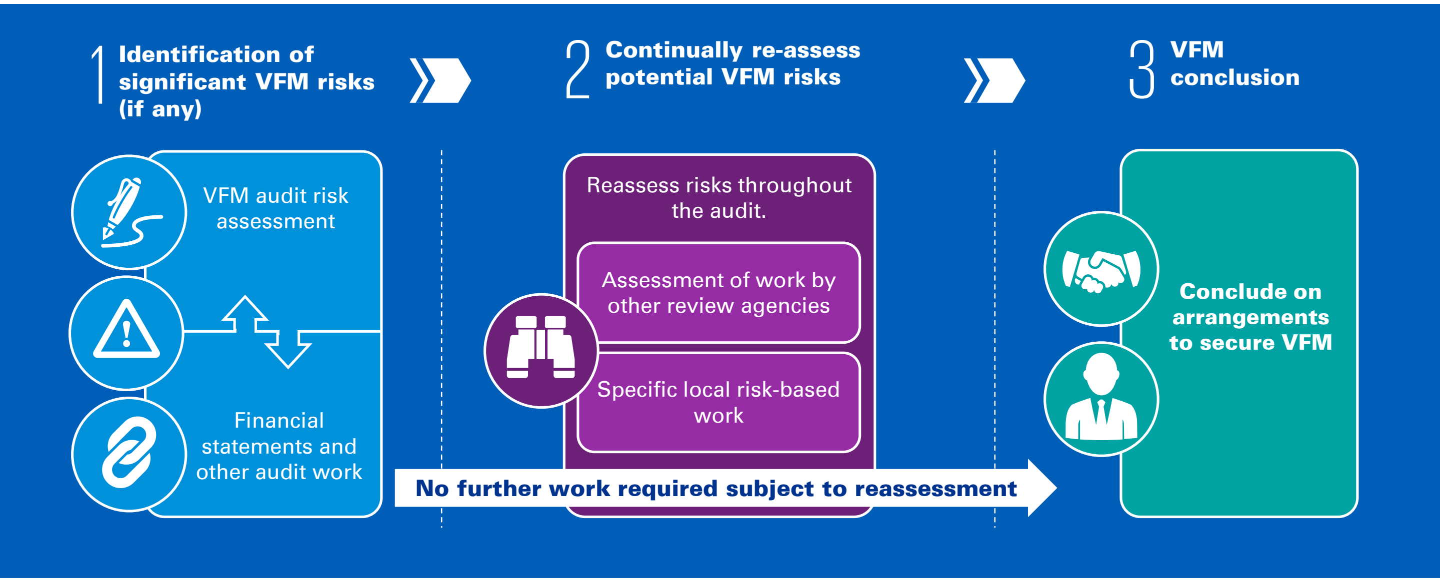
The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the Council 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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



Value for money arrangements work (cont.)

Value for Money sub-criterion

Informed decision making

Proper arrangements:

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

Sustainable resource deployment

Proper arrangements:

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

Working with partners and third parties

Proper arrangements:

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

Value for money arrangements work (cont.)

VFM audit stage

VFM audit risk assessment

Linkages with financial statements and other audit work

Identification of significant risks

Audit approach

We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice.*

In doing so we consider:

- The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks;
- Information from the Public Sector Auditor Appointments Limited VFM profile tool;
- Evidence gained from previous audit work, including the response to that work; and
- The work of other inspectorates and review agencies.

Audit approach

There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, including the Council's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.

Audit approach

The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*

If we identify significant VFM risks, then we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Council, inspectorates and other review agencies; and
- Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Value for money arrangements work (cont.)

VFM audit stage

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

Concluding on VFM arrangements

Reporting

Audit approach

Depending on the nature of the significant VFM risk identified, we may be able to draw on the work of other inspectorates, review agencies and other relevant bodies to provide us with the necessary evidence to reach our conclusion on the risk.

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

If evidence from other inspectorates, agencies and bodies is not available and our other audit work is not sufficient, we will need to consider what additional work we will be required to undertake to satisfy ourselves that we have reasonable evidence to support the conclusion that we will draw. Such work may include:

- Additional meetings with senior managers across the Council;
- Review of specific related minutes and internal reports;
- Examination of financial models for reasonableness, using our own experience and benchmarking data from within and without the sector.

Audit approach

At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

Audit approach

On the following page, we report the results of our initial risk assessment.

We will report on the results of the VFM audit through our ISA 260 Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

The key output from the work will be the VFM conclusion (i.e. our opinion on the Council's arrangements for securing VFM), which forms part of our audit report.

Value for money arrangements work (cont.)

Significant VFM Risks

Those risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

Risk:

Delivery of budgets

For 2017/18 the Council set a net expenditure budget of £294.7 million, £20 million lower than the actual net expenditure delivered in 2016/17, although this was increased to £302.7 million during the year to reflect one-off in year commitments. The budget includes significant increases in resources for Children's Services and Adults' Services, and assumes a further use of reserves of £19 million. To deliver the budget the savings required are £54 million. As part of the budget reporting the Council outlined the indicative budgets for the next 3 years which shows budget surpluses being planned, albeit with increasing savings targets supporting those years, £82 million in 2018/19, £99 million in 2019/20 and £104 million in 2020/21.

It should be noted that this is at a specific point in time (January 2018) and the budget will be considered by Cabinet on the 30 January 2018 and Council on the 14 February 2018.

Early in-year monitoring indicates that the budget is forecast to be overspent but the Council is implementing a range of mitigations to reduce the impact of any overspend at the end of 2017/18.

Approach:

As part of our additional risk based work, we will review the controls the Council has in place to ensure financial resilience, specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors.

VFM Sub-criterion:

This risk is related to the following Value For Money sub-criterion

— Informed decision making;

— Sustainable resource deployment; and

— Working with partners and third parties

Value for money arrangements work (cont.)

Risk:

Children's Services Arrangements

On 25 November 2016 Ofsted published its report from its Inspection of services for children in need of help and protection children looked after and care leavers, and its review of the effectiveness of the Local Safeguarding Children Board. The report rated Children's Services overall in Kirklees as Inadequate. Following this the Council has made fundamental changes in this area including a partnership arrangement with Leeds City Council (LCC) to improve Children's Services. The Commissioner report published in September 2017 noted the Council did not have the leadership and management capacity and capability to drive forward the necessary changes, and their recommendation was to progress the partnership arrangements with LCC to deliver the improvements.

This issue impacted on our VFM conclusion and we issued a qualified 'except for' VFM conclusion in 2016/17.

Approach:

We will consider the range of reports and information published and available from third parties including the Commissioner and Ofsted.

We will consider the degree to which changes that have been made in the Council's arrangements impact on our VFM conclusion.

We will also review how progress is being monitored and reported on at the Council.

VFM Sub-criterion:

This risk is related to the following Value For Money sub-criterion

— Informed decision making;

— Sustainable resource deployment; and

— Working with partners and third parties

Other matters

Whole of government accounts (WGA)

We are required to review your WGA consolidation and undertake the work specified under the approach that is agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and the specified approach for 2017/18 have not yet been confirmed.

Elector challenge

The Local Audit and Accountability Act 2014 gives electors certain rights. These are:

- The right to inspect the accounts;
- The right to ask the auditor questions about the accounts; and
- The right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the PSAA's fee scales.

Other matters

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Corporate Governance and Audit Committee. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2017/2018 presented to you in March 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

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

The planned audit fee for 2017/18 is £158,729, compared to 2016/2017 of £164,549.

Appendix 1:

Key elements of our financial statements audit approach

Driving more value from the audit through data and analytics

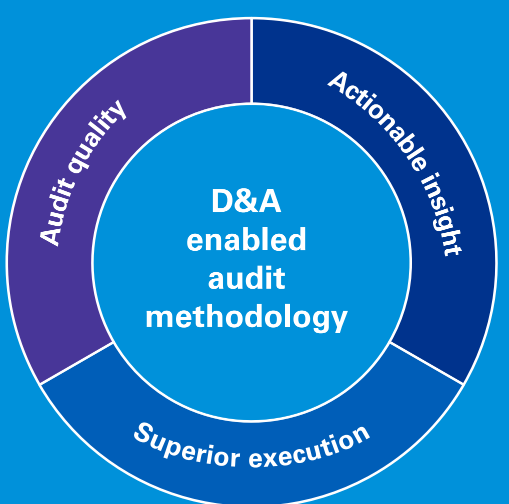
Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. Data and Analytics allows us to:

— Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.

— Focus manual procedures on key areas of risk and on transactional exceptions.

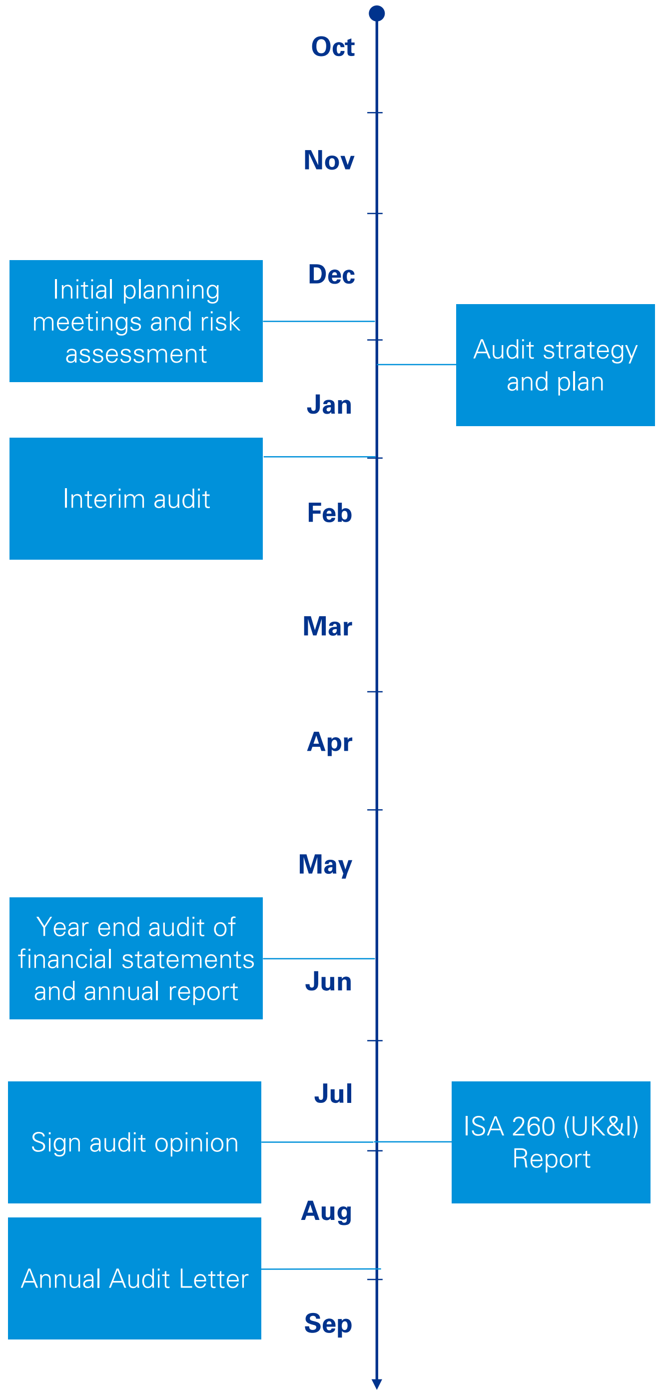
— Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such journals.



Communication

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



Appendix 1:

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

Audit workflow

Planning

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

Control evaluation

- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls
- Test operating effectiveness of selected controls
- Assess control risk and risk of the accounts being misstated

Substantive testing

- Plan substantive procedures
- Perform substantive procedures
- Consider if audit evidence is sufficient and appropriate

Completion

- Perform completion procedures
- Perform overall evaluation
- Form an audit opinion
- Corporate Governance and Audit Committee reporting

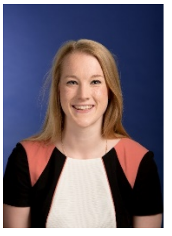
Appendix 2:

Audit team

Your audit team has been drawn from our specialist public sector assurance department. Rashpal Khangura replaces John Prentice as the Director on this engagement in 2017/18. Ben Haydon has also joined the audit team as assistant manager.

Rashpal Khangura
Director
T: +44 (0) 7876 392195
E: Rashpal.Khangura@kpmg.co.uk

'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.
I will be the main point of contact for the Corporate Governance and Audit Committee and Chief Executive.'



Emma Kirkby
Manager
T: +44 (0) 7468 365290
E: Emma.Kirkby@kpmg.co.uk

'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.
I will work closely with director to ensure we add value.
I will liaise with the Service Director for Finance, Assistant Directors and the Head of Internal Audit.'

Ben Haydon
Assistant Manager
T: +44 (0) 7584 588067
E: ben.haydon@kpmg.co.uk

'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'

Appendix 3:

Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF KIRKLEES COUNCIL

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

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

Appendix 3:

Independence and objectivity requirements (cont.)

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

Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal Threats to Independence and Associated Safeguards Applied	Basis of fee	Estimated Value of Services to be Delivered in the year ended 31 March 2018 £000
Assurance reports provided for grant claims and returns no longer within the PSAA regime. • Teachers Pensions return • Pooling of Housing Capital Receipts • NCTL teacher training return • Skills Funding Agency subcontracting Arrangements	**Self-interest:** These engagements are entirely separate from the audit through separate contracts. The fee rates are low in comparison to the audit fees and they are not contingent on any outcomes from the assurance work. **Self-review:** The nature of this work is to provide an independent assurance report to the relevant external body. This does not impact on our other audit responsibilities and there is no threat of our work under these engagements being reviewed through our audit. **Management threat**: This work provides a separate assurance report and does not impact on any management decisions. **Familiarity**: This threat is limited given the scale, nature and timing of the work. This is the second year we have completed these assurance reports. **Advocacy:** We will not act as advocates for the Council in any aspect of this work. The output is an independent assurance report to the relevant external body applying an approach issued by that body. **Intimidation:** not applicable to these areas of work.	Fixed fee	£15,000

Appropriate approvals have been obtained from PSAA for all non-audit services above the relevant thresholds provided by us during the reporting period. In addition, we monitor our fees to ensure that we comply with the 70% non-audit fee cap set by the NAO.

Independence and objectivity considerations relating to other matters

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

Appendix 3:

Independence and objectivity requirements (cont.)

Confirmation of audit independence

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

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

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

KPMG LLP

kpmg.com/uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact […], the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers, by email to Andrew.Sayers@kpmg.co.uk. After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

CREATE: CRT086281A

Technical update
Draft

Incorporating the External Audit Progress Report

Kirklees Council

January 2018

Contents

The contacts at KPMG in connection with this report are:

Rashpal Khangura

Director
KPMG LLP (UK)
T: +44 (0) 7876 392195
E: Rashpal.Khangura@kpmg.co.uk

Emma Kirkby

Manager
KPMG LLP (UK)
T: +44 (0) 7468 365290
E: Emma.Kirkby@kpmg.co.uk

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

High impact | Medium impact | Low impact | For information

External audit progress report

External audit progress report

This document provides the audit committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverable is provided in Appendix 1 of this report.

Area of responsibility	Commentary
Financial statements	We have completed our initial detailed audit planning for 2017/18 and have issued our Audit Plan, presented to the Corporate Governance and Audit Committee in January 2018. Should there be any issues requiring us to change our audit plan we will discuss this with the Service Director for Finance, IT and transactional services in the first instance and subsequently report these matters to the Corporate Governance and Audit Committee. Our detailed work on the financial statements commences in late January 2018 when we will carry out our work on your financial systems and controls.
Value for Money	Similar to the financial statements work, we have completed our initial VFM conclusion planning work for 2017/18 and have included two significant risks in our Audit Plan, relating to the delivery of budgets and Children's Service arrangements. Our 2017/18 approach to Value for Money work is being guided by the National Audit Office. The approach is fundamentally unchanged from that adopted in 2016/17.
Certification of claims and returns	We completed our 2016/17 work and have issued our Annual Report on the Certification of Claims and Returns in January 2018. In 2017/18 PSAA have again made arrangements us to certify the Housing Benefit Subsidy return. We will commence our work once the annual claim is submitted at the end of May, and will provide our certificate by the end of November 2018.
Other work	In 2016/17 we completed engagements to provide assurance on four areas: the Teacher Training return to the National College of Teaching & Leadership (NCTL), the Teachers' Pensions annual return, and the Pooling of Housing Capital Receipts return for Communities and Local Government and Skills Funding Agency sub-contracting arrangements. In 2017/18 we expect that the work we delivered in 2016/17 will again be required.

KPMG Resources

How to build a business case

A sound business case is a foundation to effective investment decisions. It is crucial for making the right investment decisions. As the pressure on local authority finances continues the role of major investment and transformation decisions will become more critical to delivering a sustainable future. Robust business cases are vital to ensuring that investment choices have the best chance of delivering success.

Through KPMG's work with over 100 public sector bodies we have produced a practical guide to preparing robust and proportionate business cases to support both routine and strategic investment decisions.

The report covers:

- The role of the business case
- How to achieve consistent quality
- Getting the balance right in the content of the business case
- Achieving objectivity
- The business case framework
- A guide to local government business cases, including the requirements for good business cases, split into 11 elements.

The full report can be accessed here: https://home.kpmg.com/uk/en/home/insights/2017/12/local-government-how-to-build-a-business-case.html?hootPostID=ad392ed3a21657cc96c79dbd6eb73134

KPMG

Technical developments

Auditor Guidance Note 1 (AGN 01) - General Guidance

Level of impact: ● (for action)	KPMG Perspective
The Comptroller and Auditor General (C&AG) has issued a revised version of Auditor Guidance Note 1 (AGN 01). AGN 01 provides general guidance to auditors of local bodies, and sets out the overall framework for issuing guidance and for providing other support to local auditors. It includes relevant ethical requirements which those charged with governance may wish to be aware of. A copy of AGN 01 can be accessed from the NAO website, guidance and information for auditors page, at the following link: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-01-General-Guidance-Supporting-Local-Audit.pdf	Those charged with governance will wish to be aware of the requirements of the FRC's ethical standard and the supplementary and explanatory guidance set out in AGN 01.

Auditor Guidance Note 7 (AGN 07) - Auditor Reporting

Level of impact: (for action)	KPMG Perspective
The Comptroller and Auditor General (C&AG) has issued an update version of Auditor Guidance Note 7 (AGN 07). AGN 07 is relevant to all bodies covered by the Local Audit and Accountability Act 2014 (the Act) and the Code of Audit Practice (the Code). The changes include revisions to clarify the guidance relating to: • Reporting to those charged with governance, which needs to cover the range of audit responsibilities under the Code including auditor judgements on significant risks in respect of arrangement to secure value for money • In specified circumstances, enhanced reporting requirements under ISA (UK) 700, including the reporting of key audit matters under ISA (UK) 701 • Reporting considerations in relation to material uncertainty in respect of going concern • Considering when to issue the annual audit letter, including in situations where work remains outstanding, for example, on Whole of Government Accounts returns; and • Part-year reporting requirements. A copy of AGN 07 can be accessed from the NAO website, guidance and information for auditors page, at the following link: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2015/03/Auditor-Guidance-Note-07-Auditor-Reporting-1.pdf	Those charged with governance will wish to be aware of the reporting requirements of the Local Audit and Accountability Act 2014.

DCLG FAQ on MRP and Investment Code guidance

Level of impact: (For Action)	KPMG Perspective
The Department for Communities and Local Government (DCLG) has issued its FAW on the Minimum Revenue Provision (MRP) and Investment Code guidance consultations. The consultation on the proposed changes closed on 22nd December 2017, and changes will be made after the analysis of consultation responses. The FAQ includes common queries from local authorities, and covers the following: • Clarification what the section on borrowing in advance of need means • Whether the proposals on MRP mean that local authorities no longer have the flexibility to decide what is prudent provision for debt • Whether local authorities should apply the current or the proposed Codes whilst making decisions during the consultation period • If the changes to the MRP guidance will be applied prospectively or retrospectively. The full FAQ can be found at the following link: https://www.gov.uk/government/consultations/proposed-changes-to-the-prudential-framework-of-capital-finance/prudential-framework-of-capital-finance-qa	Members may wish to discuss with officers what, if any, is the potential impact of the consultations.

Page 82

CIPFA/LASAAC statement on the adoption of IFRS 9 Financial Instruments

Level of impact: (For Information)

Members may wish to be aware that the Chartered Institute of Public Finance and Accountancy Local Authority Code Board (CIPFA LASAAC) has published a statement on the adoption of IFRS 9 Financial Instruments.

IFRS 9 will be adopted in the 2018/19 local government accounting code.

Members may wish to consider the effect of the adoption of IFRS 9 on the financial statements for 2018/19.

PSAA's consultation on 2018-19 scale of fees for opted-in bodies

Level of impact: ○ (For Information)

Public Sector Audit Appointments (PSAA) has published its consultation on the 2018-19 scale of fees for principal local government and police bodies that have opted into the appointing person arrangements.

The consultation is available on the PSAA website at: https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/

The consultation proposes that scale audit fees for 2018-19 should reduce by 23 per cent, compared to the fees applicable for 2017-18. More details on the proposals are set out in the consultation document.

Proposed 2018-19 scale fees for individual opted-in bodies, based on the 23 per cent reduction, are listed on the website and are accessible through the following links:

- Local government: https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-local-government-bodies/
- Local police bodies: https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-police-bodies/
- Pension fund audits: https://www.psaa.co.uk/audit-fees/201819-work-programme-and-scales-of-fees/proposed-individual-scale-fees-for-pension-funds/

Investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership

Level of impact: ○ (For Information)

The NAO has conducted an investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership. The investigation was prompted by concerns raised about the Partnership.

The role of Local Enterprise Partnerships (LEPs) continues to grow, and it may be noted that government has given LEPs a key role in the recently published Industrial Strategy to lead the development of Local Industrial Strategies.

Information on the UK's Industrial Strategy can be found at the following link: https://www.gov.uk/government/topical-events/the-uks-industrial-strategy

The Department for Communities and Local Government (DCLG) carried out a national review of LEP governance and transparency. The review made a number of recommendations for improvement.

The review, published on 26 October 2017, with the aim of providing sufficient assurance to the Accounting Officer's and ministers that LEPs fully implement existing requirements for appropriate governance and transparency.

A full copy of the report can be found at the following link: https://www.gov.uk/government/publications/review-of-local-enterprise-partnership-governance-and-transparency

PSAA's report on the results of auditors' work 2016-17

Level of impact: (For Information)

Public Sector Audit Appointments Ltd (PSAA) published its Report on the results of auditors' work 2016/17: Local government bodies on Tuesday 19th December.

This is the third report on the results of auditors' work at local government bodies published by PSAA. It summarises the results of auditors' work at 497 principal bodies and 9,752 small bodies for 2016-17. The report covers the timeliness and quality of financial reporting, auditors' local value for money arrangements work, and the extent to which auditors used their statutory reporting powers.

The timeliness and quality of financial reporting for 2016-17, as reported by auditors, remained broadly consistent with the previous year for both principal and small bodies.

Compared with 2015-16, the number of principal bodies receiving an unqualified audit opinion by 31 July showed an encouraging increase. 83 principal bodies (17 per cent) received an unqualified opinion on the accounts by the end of July compared with 49 (10 per cent) for 2015-16. These bodies appear to be well positioned to meet the earlier statutory accounts publication timetable that will apply for 2017-18 accounts.

Less positively, the proportion of principal bodies where the auditor was unable to issue the opinion by 30 September increased compared to 2015-16. Auditors at 92 per cent of councils (331 out of 357) were able to issue the opinion on the accounts by 30 September 2017, compared to 96 per cent for the previous year. This is a disappointing development in the context of the challenging new timetable. All police bodies, 29 out of 30 fire and rescue authorities and all other local government bodies received their audit opinions by 30 September 2017.

For the fourth year in a row there have been no qualified opinions on the accounts issued to date to principal bodies. The number of qualified conclusions on value for money arrangements has remained relatively constant at 7 per cent (30 councils, 2 fire and rescue authorities and 1 other local government body) compared to 8 per cent for 2015-16.

The complete report is available publically on the PSAA website: https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/

Appendix

Appendix 1

2017/18 audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2017	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	January 2018	Complete
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	March 2018	TBC
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council’s value for money arrangements.	July 2018	TBC

Appendix 1

2017/18 audit deliverables (cont.)

Deliverable	Purpose	Timing	Status
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	July 2018	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2018	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	August 2018	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2018	TBC

Annual Report on grants and returns 2016/17

Kirkless Council

—

January 2018

Agenda Item 12

Contents

The contacts at KPMG in connection with this report are:

Rashpal Khangura

Director
KPMG LLP (UK)
T: +44 (0) 7876 392195
E: Rashpal.Khangura@kpmg.co.uk

Emma Kirkby

Manager
KPMG LLP (UK)
T: +44 (0) 7468 365290
E: Emma.Kirkby@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, in relation to the certification of the Housing Benefit Subsidy grant claim, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

Headlines

Introduction and background

This report summarises the results of work we have carried out on the Council's 2016/17 grant claims and returns.

This includes the work we have completed under the Public Sector Audit Appointment certification arrangements, as well as the work we have completed on other grants/returns under separate engagement terms. The work completed in 2016/17 is:

- Under the Public Sector Audit Appointments arrangements we certified one claim – the Council's 2016/17 Housing Benefit Subsidy claim. This had a value of £115.5m million.
- Under separate engagements we issued reports on four claims/returns as listed below.
  - Teachers' Pensions return;
  - Pooling of Housing Capital Receipts return;
  - NCTL Initial Teacher Training return;
  - Skills Funding Agency sub-contracting arrangements.

Certification and assurance results (Pages 4-5)

Our certification work on Housing Subsidy Benefit claim included:

- agreeing standard rates, such as for allowances and benefit incomes, to the DWP Circular communicating the value of each rate for the year;
- sample testing of benefit claims to confirm that the entitlement had been correctly calculated and was supported by appropriate evidence;
- undertaking an analytical review of the claim form considering year-on-year variances and key ratios;
- confirming that the subsidy claim had been prepared using the correct benefits system version; and
- completing testing in relation to modified schemes payments, uncashed cheques and verifying the accurate completion of the claim form.

Following the completion of our work, the claim was amended to reflect the results of our testing and this reduced the subsidy payable by £704. We issued a qualification letter to the Department for Work and Pensions.

Our work on the other grant assurance engagements resulted in unqualified assurance reports in each of the four engagements.

Recommendations

We have not made any recommendations to the Council from our work this year. No recommendations were made in 2015-16 either.

Fees (Page 6)

Our fee for certifying the Council's 2016/17 Housing Benefit Subsidy grant was £37,718, which is in line with the indicative fee set by PSAA.

Our fees for the other 'assurance' engagements were subject to agreement directly with the Council and totalled £14,500.

Summary of reporting outcomes

Overall, we carried out work on 5 grants and returns:

- **4 were unqualified with no amendment; and**
- **1 required a qualification to our audit certificate.**

Detailed comments are provided overleaf.

Detailed below is a summary of the reporting outcomes from our work on the Council's 2016/17 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate or assurance report.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

	Comments overleaf	Qualified	Significant adjustment	Minor adjustment	Unqualified
Public Sector Audit Appointments regime					
— Housing Benefit Subsidy	1	●		●	
Other grant/return engagements					
— Teachers' Pensions					●
— Pooling of Housing Capital Receipts					●
— NCTL Initial Teacher Training					●
— Skills Funding Agency sub-contracting arrangements					●
		1	**0**	**1**	**4**

Page 94

Summary of certification work outcomes

This table summarises the key issues behind each of the adjustments or qualifications that were identified on the previous page.

Ref	Summary observations	Amendment
1	**Housing Benefit Subsidy claim** — Our testing identified errors affecting nine cells in the return. In four of these cells, because we had tested all the respective cases in those cells, the DWP approach permitted the Council to adjust the claim form. — In the other five cells, in which we identified errors, because the cell population was so large, we applied the DWP sample testing approach and included the extrapolated values from this testing in a qualification letter.	**Reduced the subsidy payable by £704**

Fees

Our fees for the Housing Benefit Subsidy claim are set by Public Sector Audit Appointments.

Our fees for other assurance engagements on grants/returns are agreed directly with the Council.

The overall fees we charged for carrying out all our work on grants/returns in 2016/17 was £52,218.

Public Sector Audit Appointments certification arrangements

Public Sector Audit Appointments set an indicative fee for our work on the Council's Housing Benefit Subsidy claim in 2016/17 of £37,718. Our actual fee was the same as the indicative fee, and this compares to the 2015/16 fee for this claim of £28,301.

Grants subject to other engagements

The fees for our work on other grants/returns are agreed directly with the Council. Our fees for 2016/17 were less than those in 2015/16. The reason for the decrease reflects a decrease in the number of returns subject to assurance engagements.

Breakdown of fees for grants and returns work

Breakdown of fee by grant/return	2016/17 (£)	2015/16 (£)
Housing Benefit Subsidy claim	37,718	28,301
Teachers' Pension return	3,000	3,000
Pooling of Housing Capital Receipts return	3,500	4,000
NCTL Initial Teacher Training return	3,000	3,000
Skills Funding Agency sub-contracting arrangements	5,000	5,000
Homes & Communities Agency compliance audit*	-	1,500
Total fee	**52,218**	**44,801**

***** The Homes & Communities Agency did not require the Council to obtain assurance reports on this area in 2016/17.

kpmg.com/uk

This page is intentionally left blank

Kirklees COUNCIL

Name of meeting: Corporate Governance & Audit Committee
Date: 30th January 2018

Title of report: Appointment of External Auditor
Purpose of report; To advise Members of the decision of Public Sector Audit Appointments Ltd

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Not applicable
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports)?	Not applicable
The Decision - Is it eligible for "call in" by Scrutiny?	Not applicable
Date signed off by Director & name Is it also signed off by the Service Director for Finance, IT & Transactional Services Is it also signed off by the Service Director - Legal Governance and Commissioning?	D Hogg 19/01/18 29/12/17
Cabinet member portfolio	Not applicable

Electoral wards affected: All
Ward councillors consulted: Not applicable

Public

1. Summary

1.1 At its meeting on 27th January 2017 this Committee agreed that the Council be recommended to ask Public Sector Audit Appointments Ltd to carry out Auditor Panel duties on behalf of the Council and nominate a proposed External Auditor to the Council in due course. The council agreed with this action at is meeting on 15th February 2017.

1.2 At the meeting on the 15th September 2017 this Committee noted that Public Sector Audit Appointments Ltd (PSSA) had carried out a tendering exercise, and had notified the Council that they wish to formally consult on their proposal to appoint Grant Thornton (UK) LLP to audit the accounts of Kirklees Metropolitan Council for five years from 2018/19. This Committee agreed that there were no reasons to object to the proposal.

1.3 On the 19th December 2017, Public Sector Audit Appointments Ltd (PSSA) advised the council that its board meeting on 14 December 2017 confirmed the appointment of Grant Thornton (UK) LLP to audit the accounts of Kirklees Metropolitan Council for five years, for the accounts from 2018/19 to 2022/23. [This appointment is made under regulation 13 of the Local Audit (Appointing Person) Regulations 2015].

1.4 The appointment will start on 1 April 2018.The current auditors KPMG continue as auditors for the current financial year (2017/18), and should complete that assignment during the summer of 2018.

2. Information required to take a decision

2.1 This report is to be noted only, as the decision was delegated to PSAA.

3. Implications for the Council

3.1 Early Intervention and Prevention (EIP) -None directly

3.2 Economic Resilience (ER) -None directly

3.3 Improving Outcomes for Children -None directly

3.4 Reducing demand of services -None directly

3.5 Although each of the sub categorisations above suggests no direct implications, the work of the external auditor covers all aspects of the councils operations, including elements of the above, indirectly.

3.6 Given that the work of the external auditor has been specified nationally based on national and international accounting standards and the expectations of the National Audit Office, there should be no particular difference between any suppliers. There will be initial learning by both parties as each gets used to the processes and expectations of the other.

4. Consultees and their opinions

4.1 Not applicable

5. Next steps

5.1 Grant Thornton are expected to contact the Chief Executive and Chief Finance officer within the next few weeks to start making arrangements for taking up the role from the 1st April 2018. At or soon after that meeting, officers will invite the new appointed auditors representatives to introduce themselves to this committee at a convenient meeting.

6. Officer recommendations and reasons

6.1 Not applicable.

7. Recommendation

7.1 To note the appointment of Grant Thornton (UK) LLP to audit the accounts of Kirklees Metropolitan Council for the five financial years 2018/19 to 2022/23.

8. Contact officer

Martin Dearnley, Head of Risk (01484 221000; x 73672)

9. Background Papers and History of Decisions

Previous reports re this mater to this Committee as noted in section 1.

10. Director responsible

Not applicable.

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted