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Service Director – Legal, Governance and Commissioning
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Thursday 17 January 2019

Notice of Meeting

Dear Member

Corporate Governance and Audit Committee

The **Corporate Governance and Audit Committee** will meet in the **Meeting Room 1 - Town Hall, Huddersfield** at **10.00 am** on **Friday 25 January 2019.**

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 Carole Pattison
Councillor Kath Pinnock
Councillor Ken Sims
Councillor Julie Stewart-Turner
Councillor John Taylor
Councillor Gemma Wilson

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	S Hall	R Eastwood
D Bellamy	A Cooper	T Lyons	N Mather	C Iredale
V Lees-Hamilton			M Sokhal	A Munro
N Patrick			R Walker	A Pinnock
M Thompson				

Ex Officio Members
Councillor Eric Firth
Councillor Graham Turner (Cabinet Member – Resources)

Agenda
Reports or Explanatory Notes Attached

		Pages
1:	**Membership of the Committee** This is where Councillors who are attending as substitutes will say for whom they are attending.	
2:	**Minutes of Previous Meeting** To receive and approve the Minutes of the previous meeting held on 16 November 2018.	1 - 4
3:	**Interests** The Councillors will be asked to say if there are any items on the Agenda in which they have disclosable pecuniary interests, which would prevent them from participating in any discussion of the items or participating in any vote upon the items, or any other interests.	5 - 6
4:	**Admission of the Public** Most debates take place in public. This only changes when there is a need to consider certain issues, for instance, commercially sensitive information or details concerning an individual. You will be told at this point whether there are any items on the Agenda which are to be discussed in private.	
5:	**Deputations/Petitions** The Committee will receive any petitions and hear any deputations from members of the public. A deputation is where up to five people can attend the meeting and make a presentation on some particular issue of concern. A member of the public can also hand in a petition at the meeting but that petition should relate to something on which the body has powers and responsibilities. In accordance with Council Procedure Rule 10 (2), Members of the Public should provide at least 24 hours' notice of presenting a deputation.	

6: Public Question Time

The Committee will hear any questions from the general public.

7: Corporate Customer Standards Interim Report 2018-2019 — 7 - 20

To receive the report.

Contact: Chris Read, Corporate Complaints Officer

8: Treasury Management Strategy Update 2019-2020 — 21 - 46

To receive the report.

Contact: Eamonn Croston, Strategic Director

9: Audit Progress Report and Sector Update — 47 - 62

To receive the report.

Contact: Robin Baker, Grant Thornton External Audit

10: External Assessment of Internal Audit Update on Progress — 63 - 68

To receive the report.

Contact: Martin Dearnley, Head of Audit and Risk

11: Quarterly Report of Internal Audit 2018/2019 (Quarter 3) — 69 - 72

To receive the report.

Contact: Martin Dearnley, Head of Audit and Risk

12: 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 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.

13: Quarterly Report of Internal Audit 2018/2019 (Quarter 3) 73 - 94

To receive the report.

Contact: Martin Dearnley, Head of Audit and Risk

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Contact Officer: Andrea Woodside

KIRKLEES COUNCIL

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Friday 16th November 2018

Present: Councillor Hilary Richards (Chair)
Councillor Carole Pattison
Councillor Ken Sims
Councillor Julie Stewart-Turner
Councillor John Taylor
Councillor Andrew Pinnock

1 Membership of the Committee
Councillor A Pinnock substituted for Councillor K Pinnock.

2 Minutes of Previous Meeting
RESOLVED - That the Minutes of the meeting held on 7 September 2018 be approved as a correct record.

3 Interests
No interests were declared.

4 Admission of the Public
It was noted that all agenda items would be considered in public session.

5 Deputations/Petitions
None received.

6 Public Question Time
No questions were asked.

7 Corporate Customer Standards Annual Report 2017-18
The Committee received the Corporate Customer Standards Annual report 2017-2018, which set out details on numbers of complaints received during 2016-2017, and the formal report issued by the Local Government Ombudsman.

The report set out the core areas of improvement which had been identified arising from the publication of the Ombudsman's formal report and it was noted that further details would be submitted to the next meeting of the Committee in January 2019. The Committee were advised that an Improvement Plan had already been considered which would provide an additional £0.5m for improved performance within the service, and would involve parents within the process of designing the service improvements.

The Committee noted the content of the report and it was requested that the wording of paragraph 2.5 be amended so as not to suggest that Licensing and Safety Committee is a method for pursuing complaints. A concern was also raised with regard to school transport provision relating to the capacity of service providers to deliver the required provision, and it was advised that this would be investigated.

Discussion also took place with regards to providing advice to the public on pursuing complaint matters, as detailed in paragraph 4 of the considered report.

RESOLVED - That the Corporate Customer Standards Annual report 2017-2018 be received and noted.

8 Information Governance Progress Report (Q1 and Q2)

The Committee received an update report which provided an overview of key information governance events and activities. Headline actions included details of work being undertaken in order to improve the information governance culture within the Council, and also to minimise risk from non-compliance with GDPR, which included (i) reviewing policies, guidance and framework (ii) promoting and updating awareness (iii) implementing initiatives to improve information security and (iv) delivering projects to update procedures for records management.

Discussion took place with regards to (i) compliance with mandatory training requirements and (ii) retention processes for information, specifically in regards to the receipt of comments regarding the Local Plan.

The Committee noted the report and asked that thanks for the work undertaken be conveyed to the Information Governance Team for their support and assistance to staff and Elected Members in complying with sound information governance processes.

RESOLVED - That the Information Governance Progress Report (Q1 and Q2) be received and noted.

9 Treasury Management - Half Yearly Monitoring

The Committee received a report which provided an overview of half-yearly treasury monitoring for the period 1 April to 30 September 2018. It was noted that (i) the report provided assurance that the Council's treasury management function was being managed prudently and pro-actively (ii) external investments averaged £43.1m during the period at an average rate of 0.56% and (iii) investments had ranged from a peak of £70.8m and a low of £15.8m.

The report advised that the treasury management revenue budget was forecast to underspend by £5.4m in 2018/2019, against an annual budget provision of £22.9m, due to the change in Minimum Revenue Provision Policy which had generated an underspend against baseline of £9.1m, and that out of this underspend, it was intended that £4.1m transfer to financial resilience reserves at year end, with the balance of the £5m being released in-year to support additional investment into high needs service.

The report provided an overview and key headlines in terms of (i) economic context (ii) investment performance (iii) borrowing performance (iv) revenue budget monitoring (v) prudential indicators (vi) future treasury management strategy and (vii) borrowing and investment general strategy 2018/19.

RESOLVED -

(1) That the half-year treasury management 2018-2019 performance report be noted.

(2) That the report be referred to the meetings Cabinet on 16 November 2018 and Council on 11 December 2018 with a recommendation that proposals for an amendment in the Council's current investment strategy, to include the Local Authority Property Fund as a potential source, be approved.

(3) That it be noted that Officers will further explore an investment opportunity of between £5m and £10m in the Fund, and that subject to further Government clarification on the statutory override, and other risk considerations, any such proposals be formalised into the forthcoming 2019/2020 Annual Treasury Management Strategy and Annual Budget for further consideration.

10 External Audit Progress Report and Sector Update

The Committee received a progress report from Grant Thornton External Auditors, which set out the progress made on delivering responsibilities. The report also included a summary of emerging national issues and developments and a number of questions to consider in terms of emerging issues to consider.

The report set out the progress made as at 26 October 2018, as detailed within the report. The Committee noted the 2018/2019 timetable for deliverables and that work was on track to submit the Accounts Audit Plan to the meeting of the Committee in January 2019.

RESOLVED - That the External Audit Progress report and Sector Update be received and noted.

11 Risk Management Update Report

The Committee received a report which set out information on the Council's Risk Management Statement, providing an overview of the current position and actions that were being taken to improve the organisational approach to risk management. The action plan, setting out the risks and mitigation actions, was appended to the considered report.

The Committee noted that many of the risks stated were common to large organisations, but the structure of the information had now been updated, and also included associated Brexit risks. Discussion took place regarding the need to strengthen the risk as identified in the Action Plan at items 3, 7 and 13, which had interconnected components, and the need to reference concerns relating to mitigation measures. The Committee also emphasised the need for arrangements to be put in place to ensure that risk matrix information for individual Council Directorates was regularly updated and requested that an update report be submitted in 6 months' time.

RESOLVED -

(1) That the Risk Management update report be received and noted.

(2) That the Committee's dissatisfaction with the progress made to date on the implementation of risk management be noted and that appropriate action be taken to progress this prior to the submission of a progress report to the Committee in approximately 6 months.

12 Quarterly Report of Internal Audit 2018/2019 (Quarter 2)

The Committee received a report which set out the activities of internal audit during the second quarter of 2018/2019. The report contained information regarding 13 formal opinion based pieces of work, 7 projects and 6 completed audits. It was noted that, overall, 54% of the work had reflected a positive outcome, and that the cumulative positive outcome for the year was 71%.

(The Committee considered the exempt information at Agenda Item 14 (Minute No.14 refers) prior to the determination of this item).

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

13 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.

14 Quarterly Report of Internal Audit 2018/2019 (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.)

The Committee received the Quarter 2 report of Internal Audit, covering the period July to September 2018. The report set out details of internal audit activity and provided an update on the monitoring of progress regarding the implementation of the Annual Governance Statement, and other assurance information.

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

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.

Kirklees COUNCIL

Name of meeting: Corporate Governance and Audit Committee
Date: 25 January 2019
Title of report: Corporate Customer Standards Interim Report 2018-19

Purpose of report:

To update Corporate Governance and Audit on Ombudsman complaints performance for the period April – October 2018.

To confirm the outcome of the formal report issued by the Local Government Ombudsman, and to discuss new reporting of action on remedies recommended by the Ombudsman.

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?**	Julie Muscroft 15.01.2019
Cabinet member portfolio	**Graham Turner**

Electoral wards affected: **all**

Ward councillors consulted: **none**

Public or private: **Public**

1. **Summary**

For Corporate Governance and Audit Committee to consider and approve the content of the report.

2. **Information required to take a decision**

Contained within report

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**

Advice to residents may clarify their complaints. Learning from complaints will help ensure that errors are not repeated and processes are more efficient and effective.

3.5 **Other (eg Legal/Financial or Human Resources)**

Complaint handling investigation can help reduce risk of services not adhering to legal processes.

4. **Consultees and their opinions**

None

5. **Next steps**

N/A

6. **Officer recommendations and reasons**

To accept the report.

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

8. **Contact officer**

Chris Read, Corporate Customer Standards 01484 221000

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

None

10. **Service Director responsible**

Eamonn Croston

Corporate Governance and Audit Committee – 25.01.2019

1: Purpose of Report

It was agreed that the Corporate Customer Standards Officer would attend Corporate Governance and Audit Committee twice yearly to report on complaint matters for the first half of the financial year.

An update to the actions undertaken following the formal Ombudsman report against the council is also provided.

A change in Ombudsman reporting procedures and its implications are also highlighted.

Corporate Governance and Audit Committee are asked to note the contents of the report.

2: Update on Complaints Workload and Cases Upheld by the Ombudsman

The Local Government Ombudsman publishes details of every complaint decision three months after they are formally made. This enables us to compare half yearly performance against other West Yorkshire Councils.

For the period 01/04/2018 – 20/09/2018, the Ombudsman considered the following number of cases

Council	**Complaints Considered**	**Formally investigated**	**Upheld**
Kirklees	29	12 (41% of cases)	6 (21% of all complaints)
Calderdale	18	5 (28%)	3 (17%)
Bradford	21	6 (29%)	4 (19%)
Leeds	56	22 (39%)	8 (14%)
Wakefield	18	3 (17%)	1 (6%)

Kirklees received 29 of 142 West Yorkshire complaints which equates to 20.5% of the complaints received, which is broadly equal to the population share Kirklees has in West Yorkshire (20%). It should be noted this half year, Kirklees does appear to have received a slightly higher proportion of Ombudsman complaints than it traditionally receives (17-19%). However, given the numbers involved, just 1-2 additional investigations can make a difference.

Also the proportion of complaints formally investigated by the Ombudsman in Kirklees is slightly higher than we might anticipate. This could be a reflection of the council’s reputation with complaints handling where the ombudsman has been critical of the council, or it could reflect individual cases that perhaps prompt concern.

The proportion of upheld cases is also higher than might be anticipated. The area of Special Educational Needs and culminating in a formal report at the end of the period in question may help account for the statistical result. Again, a very small number of cases can slew the statistics given the small numbers involved.

Detail of Specific Cases Upheld by the Ombudsman – April – October 2018

17 003 706 – Children's Service. Mrs B complains the Council was at fault in the way it dealt with the placement of a baby with her and her husband, and about how it dealt with her complaint. Some faults were accepted by the Council following investigation under the statutory complaints procedure. The Ombudsman's investigation identified some further faults. The Council has agreed to a recommendation for remedy in the form of apology and a payment in recognition of distress, inconvenience and time and trouble.

17 000 159 – Special Educational Needs. The Council took a year too long to issue an EHC Plan for Mrs X's son, Y. It also failed to make some of the provision ordered by the subsequent SEND Tribunal for up to a further year. It will apologise to Mrs X, pay her £2050 and review its practice in adhering to timescales for issuing EHC Plans.

17 015 517 – Adult Services Direct Payment **-** Mr X complains that the Council would not include the cost of travel, entrance fees, or massage, to meet eligible needs, in his personal budget. The Ombudsman finds the Council was at fault and caused Mr X distress. It will consider how much meeting his needs will cost, and what other related expenses Mr X has to pay. It will also consider whether this caused Mr X an injustice and offer a suitable remedy if so.

17 015 766 – Waste Service – The Council was at fault when it missed bin collections in line with its assisted collection service for disabled service users. The Council's £100 remedy was appropriate for the complainant, Mr Z's out of pocket expenses. The Council failed to inform Mr Z about its policy for vacant properties. It failed to pay him the agreed remedy. The Council will remedy Mr Z's further injustice by paying him an extra £100.

17 014 759 - Special Educational Needs - Mrs X complained about the transfer of a Statement of Educational Need to an Education, Health and Care Plan. The Council was at fault because it took too long to complete the transfer. The Council has already apologised to Mrs X and that is sufficient to remedy the injustice it caused her.

17 019 805 – Special Educational Needs. – this is the formal Ombudsman report as described in point 3.

Examples of Learning from complaints

We have identified communication issues within our **Adult Services** service and the advice residents are given. In particular this relates to reviewing support packages and direct payments, where residents have not been given clear advice on the appropriate use of direct payments. Training and support is being provided to front line staff about how this advice can become more accurate to help ensure expenditure is directed to remedy the identified need.

There is continuing review of various adult service policies and procedures where complaint matters have informed process, and we are arranging Adult Service

Ombudsman training for team and senior managers to improve and encourage pro-active complaints handling.

The regular complaints meetings with senior managers have developed into identifying policy, procedure and training development as a result of complaint outcomes.

Bin collection – with one complaint we identified a disconnect with the guidance provided to our telephone team against the procedure deployed by the refuse service. This related to not providing a collection service from empty properties and led to inaccurate advice being provided to a resident. We also identified some issues around reviews of assisted bin collections which has resulted in a clarification in the policy to ensure residents are better informed about any changes in collection.

3: Update on Formal Ombudsman Report

The council received a formal local government ombudsman report on 2 October 2018 (as reported previously). The service area related to Special Educational Needs and reflected difficulties encountered by many councils following changes in legislation which required more intensive action and support to be provided by councils.

Recommendations in the formal Ombudsman report were as follows:

The Council must consider the report and confirm within three months the action it has taken or proposes to take. The Council should consider the report at its full Council, Cabinet or other appropriately delegated committee of elected members and we will require evidence of this.

In addition to the requirements set out above, the Council has agreed to make the following payments to Mrs X within three months of our final decision: £200 for the unnecessary distress and time and trouble caused in having to bring a third complaint to us; £400 for the term and a half of Assistive Behaviour Application (ABA) missed from September 2017 to February 2018; £400 to acknowledge the cumulative effect on X of the extended period the Council failed to provide the complete package of support specified in his Statement.

The Council has also agreed that within three months of our final decision it will review the procedures it uses to monitor and ensure delivery of special educational provision. It should report its findings to us and the action taken.

Appendix 1 contains the report considered by Cabinet on 11 December 2018, which was approved.

While the service regrets the inconvenience and upset caused to the family involved, it should be noted similar formal reports have been issued against other councils on this matter.

The complaint has also helped to inform how the service should deal with complaints presented by other parents who have also suffered delay in assessment and introduction of packages, and the service have been active in looking to resolve any remaining concerns for other parents. This enables the resident to receive a positive outcome without having to wait some months for the Ombudsman to form a conclusion. We are aware the Ombudsman did offer one other resident some advice, and confirmed that our proposed remedy was in line with what they might anticipate.

Details of the service improvement proposed by the service as a result of a £500,000 budget increase was reported to Cabinet in November. Staff are intended to be in place this month and service improvements can be introduced at this time.

Much work has been undertaken to involve interested parties/parents into the improvement process and this has helped improve relationships and there is a clearer process for assessments to be undertaken.

The service have been working with the parent to ensure the care and support plan is in place. At present a plan has been agreed and drafted, and is awaiting social care input before it is confirmed. The level of compensation has been paid to the complaint.

4: Changes in Ombudsman Procedure – recording outcomes

The Ombudsman has tightened up on monitoring to ensure that agreed remedies are actioned within timescales. They intend to report on their findings for their next annual update (due July 2019).

We have identified some issues around ensuring payments and apologies are issued quickly by services, and propose some changes to procedures which should assist.

Background -

When the Local Government Ombudsman forms a view on a complaint and where the complaint is upheld, it considers whether fault is found and what remedy might address the situation for the resident. The decision and remedy of the Ombudsman is not currently legally binding upon the council, but they will check with councils to determine whether the council may agree their recommended course of action.

Kirklees have supported all decisions and remedies proposed by the Ombudsman in the past 10 years.

The suggested remedy from the Ombudsman often incorporates the following:

- A genuine apology for the resident
- A level of compensation/time and trouble (this is not a punitive sum)
- A reassessment of the decision affecting the resident
- Some assurance of procedure improvement into the future for other residents

The Ombudsman usually sets a deadline for actions to be undertaken (typically one month for apology/cash payment/reassessment for the resident, and three months for service improvement). This recognises that the situation needs to be addressed fairly quickly for the resident.

From April 2018, the Local Government Ombudsman has started undertaking more stringent checks on whether the recommended actions agreed have been undertaken in deadline. This requires the council to provide evidence to support the actions it has taken.

Unfortunately, we have identified a small number of occasions where actions have not been undertaken on time, and in addition we sometimes find the service struggling to complete the remedy in deadline. A late remedy risks reputational damage and does little to help repair the damaged relationship between resident and the council.

We are unsure at this stage whether the council is performing poorly in this area (the first national outcomes will be published next July) but there is a risk of adverse publicity if it has not considered cases in good time. We are in the process of obtaining feedback from other local councils about how well they are performing.

To help improve response times and reduce chase up issues, we propose that the Corporate Customer Standards Officer arranges any agreed compensation payment (using the service cost code) and to prepare a general apology letter immediately, which the service can turn into a bespoke and timely response.

We also intend to highlight the situation and remind complaints colleagues they need to ensure the remedies are actioned in good time and information provided back to the Customer Standards section so action can be shared with the Ombudsman without the need for administrative chase up.

Appendix 1: Report on Ombudsman Formal Decision to Cabinet

https://democracy.kirklees.gov.uk/documents/s26188/Item%2011%202018%2010%2030%20Ombudsman%20Response.pdf

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Name of meeting: **Cabinet**
Date: **11th December 2018**
Title of report: **A Response to the Ombudsman Report - 13 September 2018**

Purpose of report: **To confirm the actions taken since publication of the report**
To confirm actions still to be taken

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?	**Yes**
Date signed off by Strategic Director & name **Is it also signed off by the Service Director for Finance (Section 151 Officer)** **Is it also signed off by the Service Director for Legal Governance and Commissioning Support**	**Sal Tariq 30/10/18** **Eamonn Croston (James Anderson) 28/11/18** **Julie Muscroft 30/10/18**
Cabinet member portfolio	**Cllr Masood Ahmed** **Cllr Viv Kendrick**

Electoral wards affected: all

Ward councillors consulted: none

Public or private: Public

1. **Summary**

On October 2nd 2018, the Ombudsman (attached at Appendix 1) published a formal report describing the difficulties faced by the family of X (a child with Special Educational Needs and Disabilities – SEND) and made a series of recommendations. One of these is that the Council must consider the Ombudsman Report and confirm within three months the action it has taken or proposes to take. This report describes the actions that have taken place, the further actions that are planned, and the learning that the Service has taken to improve future practise.

2. **Information required to take a decision**

i) **The recommendations in the Ombudsman report are set out below**:

The Council must consider the report and confirm within three months the action it has taken or proposes to take. The Council should consider the report at its full Council, Cabinet or other appropriately delegated committee of elected members and we will require evidence of this

In addition to the requirements set out above, the Council has agreed to make the following payments to Mrs X within three months of our final decision: £200 for the unnecessary distress and time and trouble caused in having to bring a third complaint to us; £400 for the term and a half of Assistive Behaviour Application (ABA) missed from September 2017 to February 2018; £400 to acknowledge the cumulative effect on X of the extended period the Council failed to provide the complete package of support specified in his Statement.

The Council has also agreed that within three months of our final decision it will review the procedures it uses to monitor and ensure delivery of special educational provision. It should report its findings to us and the action taken.

ii) The action taken

A funding gap had been identified by the Council as part of reviewing the capacity of the SEND Assessment and Commissioning Team (SENDACT) and in May 2018 additional investment of £500,000 was implemented to increase the team's function, capacity, quality and size. A programme of professional development and training is being planned with the team, underpinned by the Restorative Practice approach.

Appendix 2: Cabinet Report 16.10.18

In order to work with our parents and ensure that we are able to learn from the experiences of families, a series of meetings and discussions were, and continue to be held with some parents and carers of children with Special Educational Needs and Disabilities, who expressed their own concerns about the quality of service provided by SENDACT and the impact that this had had on their child's provision and progress, and on their family as a whole. The discussions have involved the parent Mrs. X, who has been generous in sharing her experiences which in turn has been instrumental in shaping the improvement process. The Council is appreciative of the commitment of our parents who are involved in this ongoing engagement.

The Council has been keen to be open and transparent in working with our families and plans for the review of SENDACT were shared with parents as part of our ongoing discussions, and feedback encouraged. The feedback we received was included in the team's action plan. It was agreed to hold a series of future meetings so that parents could monitor the progress of the review and the action plan. The first of these meetings was held on October 24th 2018.

It is helpful to set some wider context to the situation. Legislation required councils to improve its offer to children with special educational needs by assessing new Education Health and Care (EHC) plans and transferring any existing young people who had a Statement of Educational Need to an Education Health and Care Plan. It is clear councils across the country have had difficulty in ensuring that its services achieved the timescales of these new provisions. In a press release from October 2017, the Local Government Ombudsman identified that nationally fewer than 60% of EHC plans were issued within the 20 week timescale in 2016. At that point the Ombudsman were upholding 80% of the complaints they were receiving nationally on the subject and had identified an increasing number of complaints being received.

In this backdrop, Kirklees Council formulated plans to improve its offer for Children with Special Educational needs but it recognises unfortunately it did not fulfil the identified needs of this child before the improvement plans had been fully formulated and introduced. However, the work undertaken, and the plans in place to monitor and quality assure the improvement, gives some confidence that changes to the service can now be introduced very quickly.

Actions focus on key issues raised by parents, and those addressed through the Ombudsman Report and include:

1. The need for more timely communication between services, schools and parents in order to reduce delay. Rigorous supervision and training, and a new electronic system to aid monitoring of progress and communication are now in place.

2. The principles of a child and family centred approached enshrined in the Children and Families Act 2014 should be embedded through a workforce development strategy to ensure that parents and their child were fully involved in the decision making process. The Council has adopted a Restorative Approach and this complements the core principles of the Act. A bespoke programme is being designed for SENDACT.

   The SENDACT review is almost complete and the new, larger structure will be fully in place by January 2019. Parents were present at all interviews during the process and contributed to the questions set in the interviews and tasks themselves.
   There is an extensive workforce development programme in place and this will include input on the Restorative Approach.
   There are additional posts in the structure that are responsible for quality assurance and compliance, and key performance indicators to meet relating to timeliness of response to parents.

   In addition to this, the Council is committed and is undertaking a focussed approach to a High Needs Strategic Review, and a strategic action plan is in place to deliver system change. This is based on the outcome of extensive consultation with parents and carers, schools and settings, and other agencies. The SENDACT review is included in the action plan along with other developments noted by parents, e.g. closer multi-agency working, workforce development, the importance of transition.

   Appendix 3: Cabinet Report 20.2.18

   In addition, Children's Scrutiny have oversight of the High Needs Review action plan, which is a further opportunity to ensure improvement and accountability.

3. Implications for the Council

3.1 Early Intervention and Prevention (EIP)

Earlier, child and family centred conversations with parents will lead to a more considered view of a child and family's aspirations, and the provision needed to achieve this. This is fundamental as part of the High Needs Action Plan.

3.2 **Economic Resilience (ER)**
Early discussions about aspirations include a consideration and planning for the transition to adulthood to ensure that each young person is able to achieve an appropriate degree of independence and to contribute to their community.

3.3 **Improving Outcomes for Children**
The overall aim of the High Needs Review and the action plan that is in place is that children and young people should have the opportunity and be able to access appropriate provision within or as near to their community as possible to enable them to engage fully in the area where they live, with support where needed.

3.4 **Reducing demand of services**
Our aim is to ensure access to local provision wherever appropriate and to reduce the need for more specialist provision while ensuring that this is available for those children and young people with more complex needs.

3.5 **Other (e.g. Legal/Financial or Human Resources)**
As part of the High Needs action plan, there is a focus on the available funding for Kirklees children and young people as part of the High Needs Block as this continues to overspend.

4. Consultees and their opinions

There was an extensive period of engagement, consultation and dialogue through the High Needs Review followed by specific consultation with local groups for parents of children and young people with SEND, specifically; Parents of Children with Additional Needs (PCAN), Whole Autism Family, and the Down Syndrome and Friends Group. This engagement and dialogue is critical to ensure further development and improvement in service if we are to be responsive, and will continue through our parent monitoring group, and parents will be involved in our workforce development planning.

5. Next steps

The SENDACT action plan and training plan is now in place and progress will continue to be monitored through the Parent Group, the High Needs Review Project Board, and the SEND Strategy Group, with regular updates to the Service Directors and Elected Members.
The council will confirm with the Local Government Ombudsman when its improvement plans have been fully introduced, and a further update on the complaint will be shared and discussed with Corporate Governance and Audit Committee in January 2019.

6. Officer recommendations and reasons

To take note of the formal Ombudsman report that has been received, and to consider the actions completed to date, those planned and the monitoring arrangements in place. We will also confirm with the Local Government Ombudsman that they believe the actions taken appear to form an appropriate response to their findings.

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

I believe that the SENDACT review, the High Needs Strategic Review and the co-production with families means that we have clearer and stronger service delivery with better outcomes for children and their families. Additionally the oversight and involvement of parents and carers of children with special needs and the Children & Young People's Scrutiny panel will continue to help and support the development of improved services.

8. **Contact officer**

Mandy Cameron, Head of Service: Education Inclusion and Safeguarding

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

Appendix 1: Ombudsman Report

https://www.lgo.org.uk/information-centre/news/2018/oct/ombudsman-urges-kirklees-council-to-learn-from-complaints

Appendix 2: Cabinet Report 16.10.18
https://democracy.kirklees.gov.uk/documents/s24889/8%20-%20SEND%20Update.pdf

Appendix 3: Cabinet Report 20.2.18
https://democracy.kirklees.gov.uk/documents/s21928/2018%2002%2020%20HNR%20redacted%20version%20of%20report.pdf

10. **Service Director responsible**
Jo-Anne Sanders

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Kirklees COUNCIL

Name and date of meeting: Corporate Governance and Audit Committee
25 January 2019

Cabinet
29 January 2019

Council
13 February 2019

Title of report: Treasury Management Strategy 2019-20

Purpose of report

Under the CIPFA Code of Practice on Treasury Management (2017) and accompanying Prudential Code 2017 the Council must present a Treasury Management Strategy at the start of each financial year. Alongside the Treasury Management Strategy an Annual 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**	**N/A** **Eamonn Croston – 17 January 2019** **Julie Muscroft – 17 January 2019**
Cabinet member portfolio	**Corporate** **Graham Turner**

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 (2017 Edition), and accompanying Prudential Code 2017, and is thereby required to consider a treasury management strategy before the start of each financial year. In addition, the Ministry for Housing, Communities and Local Government (MHCLG) issued guidance on local authority investments in February 2018, which requires the Council to approve an annual Investment Strategy before the start of each financial year.

1.2 This report meets the requirements of the current CIPFA Codes and current MHCLG Guidance (2017 Edition).

1.3 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 2018 by the Council's treasury management advisors/consultants, Arlingclose.

1.4 This report will:

(i) outline the outlook for interest rates and credit risk, and in light of this, recommend an investment strategy (Treasury Management Investments) for the Council to follow in 2019-20;

(ii) outline the current and estimated future levels of Council borrowing (internal and external) and recommend a borrowing strategy for 2019-20;

(iii) review the methodologies adopted for providing for the repayment of debt and recommend a policy for calculating the Minimum Revenue Provision from 2018-19 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;

(v) as part of the new treasury management regulations, to recommend an annual Investment Strategy (Non-Treasury Investments) for the Council in 2019-20 in line with MHCLG (2017) guidance.

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:

<u>Economic Background</u>

2.1 The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20. UK Consumer Price Inflation (CPI) for October was up 2.4% year/year, slightly below the consensus forecast and broadly in line with the Bank of England's November Inflation Report. The most recent labour market data for October 2018 showed the unemployment rate edged up slightly to 4.1% while the employment rate of 75.7% was the joint highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.3% as wages continue to rise steadily and provide some pull on general inflation. Adjusted for inflation, real wages grew by 1.0%, a level still likely to have little effect on consumer spending.

2.2 Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy has been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. The Monetary Policy Committee (MPC) continues to reiterate that any further increases will be at a gradual pace and limited in extent.

Interest Rate Forecast

2.3 Following the increase in Bank Rate to 0.75% in August 2018, the Authority's treasury management adviser Arlingclose is forecasting two more 0.25% hikes during 2019 to take official UK interest rates to 1.25%. The Bank of England's MPC has maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continues to have a bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

2.4 The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the European Union and Eurozone growth softens. While assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Borrowing and Investment – General Strategy for 2019-20

2.5 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.

Table 1 below sets out the forecast CFR position for the Council as at March 2019 and forecast CFR and borrowing requirements over the following 3 years:

Table 1: Balance Sheet Forecast

	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m
General Fund CFR - Non PFI	462.8	508.9	555.0	591.8
PFI	49.3	45.8	42.6	39.4
HRA CFR - Non PFI	175.3	170.7	165.7	162.8
PFI	52.9	50.5	48.1	45.2
Total CFR	740.3	775.9	811.4	839.2
Less: PFI debt liabilities*	102.2	96.3	90.7	84.6
Borrowing CFR	638.1	679.6	720.7	754.6
Finance via;				
Deferred Liabilities	3.9	3.7	3.6	3.6
Internal Borrowing	136.6	136.6	136.6	136.6
External Borrowing	497.6	539.3	580.5	614.5
Total	638.1	679.6	720.7	754.6
Investments	30.0	30.0	30.0	30.0

**£102.2m PFI Liabilities (£5.9m falling due in 2019-20)*

2.6 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 significant 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 internal balances to offset new borrowing requirements.

2.7 The external borrowing necessary to fund the projected rise in CFR highlighted in Table 1 (above) will be a mixture of long and short-term borrowing. The cost of borrowing has been historically low over the past decade. Recent incremental uplifts in bank base rates, and further forecast incremental uplifts over the following 12 months or so, suggest that it may be beneficial to consider taking out some external borrowing at guaranteed fixed long term rates that are still relatively low.

2.8 Table 1 above also reflects a fairly consistent level of internal borrowing forecast over the next 3 years. This largely reflects the view that forecast reserves, balances and net creditors are projected to remain reasonably consistent over the medium term.

2.9 This in part depends on the extent to which short term borrowing rates may increase from current. The relative mix of future internal and external borrowing will be considered in conjunction with advice from the Council's external treasury management advisor, noting as well that provision will be made in updated Council budget plan revenue resource assumptions to accommodate a potential increase in external borrowing.

2.10 The Service Director Finance, supports the approach that the borrowing and investment strategy for 2019-20 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

2.11 It is recommended that balances should continue to 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.

2.12 In order to increase investment returns, alternative investment options were considered further at full Council on 12 December 2018 and as part of the Half Yearly Monitoring report on Treasury Management activities 2018/19. There was member approval to add the Local Authorities Pooled Investment Fund as an approved Council Investment, and further, for officers to continue to explore options for a potential investment of between £5m and £10m in the fund.

2.13 Average current Council cashflow balances remain consistent at about £42m, and officers consider that an investment of upto £10m will still enable sufficient remaining headroom to accommodate the £30m day-to-day cashflow requirement as noted at paragraph 2.10 above.

2.14 Given the nature of the underlying investment (UK based diversified property portfolio) and the potential for domestic economic volatility in the run up to UK's expected withdrawal from the EU on 29 March 2019, advice will be sought from the Council's external treasury advisors, as well as more detailed discussions with the LAPF's Fund Manager, CCLA. Updated Council budget plans have factored in a potential investment of upto £10m part way through 2019-20.

Borrowing Strategy

2.15 The Council is forecast to hold around £545.8m of external borrowing and other long-term liabilities as at 31 March 2019. This is analysed at Table 2 below:

Table 2 – year end estimate – 31 March 2019

	£m	%
PWLB loans (fixed rate)	280.4	51
LOBOs	75.0	14
Loan stock (fixed rate)	7.0	1
Other long term loans (fixed rate)	30.3	6
Temporary borrowing	50.9	9
Total external borrowing	**443.6**	
Other Long Term Liabilities (mainly PFI)	102.2	19
Total external debt liabilities	**545.8**	

2.16 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
- Salix Finance Limited

2.17 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.

2.18 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.

2.19 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.

2.20 Salix Finance Limited provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council to date has taken the opportunity to secure £5.9m interest free loan to part fund the £11m approved street lighting replacement scheme in the Council's approved capital plan.

2.21 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

2.22 Investment guidance issued by MHCLG 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.

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

2.24 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.

2.25 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. Given the size and range of the Council’s treasury management activities, the Service Director Finance believes this to continue to be the most appropriate status.

2.26 It is recommended that the investment strategy for 2019-20 includes consideration of a potential investment of up to £10m in the Local Authorities Property Investment Fund (see also paragraph 2.12 earlier). The Council will continue to maintain a relatively low risk strategy giving priority to security and liquidity, and as such invest an average of around £30 million externally in relatively short-term, liquid investments through the money markets, for the purpose of managing day-to-day cash flow requirements. Any remaining balances, net of investment in the local authority property fund, will be used internally, offsetting borrowing requirements.

2.27 It is proposed to change the Council’s investment criteria to increase the minimum credit rating for both UK and foreign banks in line with advice from the Treasury Management Consultants. This will raise the minimum credit rating to: A- (Fitch and S&P) and A3 (Moody’s) from the previous minimum: BBB+ (Fitch and S&P) and Baa1 (Moody’s). In practice this will have a minimal effect on the Council’s treasury activities as all current investments meet the proposed criteria and it will bring the Council in-line with current advice from the Council’s Treasury Management Consultants. The credit ratings table highlights this and is shown at Appendix B. The criteria have also been updated to reflect the potential for investment in Local Authority Pooled Investment funds. The table detailed at Appendix A reflects both of these updates and highlights the investment limits for all types of treasury 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 2019-20, 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 MHCLG guidance which sets out possible methods a council might wish to follow.

2.35 Current MHCLG 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. Appendix C details the Council's policy for the provision of MRP. Within the revised MRP policy approved by Council last year, the unwinding of the previous over-provision was profiled equally over 10 years (£9.1m per year).

2.36 Officers are proposing a revised profile for unwinding MRP over-provision in 2018-19 and 2019-20, that will increase the un-winding for each of the next two years. The maximum amount of un-wind in any one year 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 2018-19 is £13.5m and estimated to be similar in 2019-20. This reduction in MRP charges for these 2 years has been factored into the Council's CFR calculations set out earlier at Table 1.

2.37 Officer recommendation is that the impact of the additional unwind, will be transferred to Council financial resilience reserves as part of the Council's broader risk strategy set out in the overall annual budget report to Cabinet on 29 January and Budget Council on 13 February 2019.

Policy on the Use of Financial Derivatives

2.38 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.

2.39 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.

2.40 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

2.41 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. They are however covered by the Authority's Investment Strategy (see Appendix E).

Treasury Management Indicators

2.42 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

2.43 The CIPFA Code also requires the Council to note the following matters each year as part of the treasury management 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*

As part of the MiFID II requirements, 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

3.1 Working with People
N/A

3.2 Working with Partners
N/A

3.3 Placed based working
N/A

3.3 Improving Outcomes for Children
N/A

3.4 Reducing demand of services
N/A

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

The revenue implications of the strategies outlined have been reflected in the Council's annual budget report 2019-22.

4 Consultees and their opinions

Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Next steps

Treasury management performance will be monitored and reported to members during the year.
Following consideration at Corporate Governance & Audit Committee, this report will be presented to Cabinet on 29 January 2019 and then full Council on 13 February 2019.

6 Officer recommendations and reasons

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

(i) the borrowing strategy outlined in paragraphs 2.15 to 2.21;
(ii) the investment strategy (treasury management investments) outlined in paragraphs 2.22 to 2.32 and Appendices A and B;
(iii) the policy for provision of repayment of debt (MRP) outlined in paragraphs 2.33 to 2.37 and at Appendix C;
(iv) the treasury management indicators in Appendix D;
(v) the Investment Strategy (Non-Treasury Investments) at Appendix E.

7 Cabinet Portfolio Holder recommendation

The report and recommendations be submitted to Cabinet on 29 January 2019 and Council on 13 February 2019.

8 Contact officer

James Anderson	Senior Finance Manager	01484 221000
Rachel Firth	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 (MHCLG 2018); The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008; Localism Act 2011.
CIPFA Treasury Management Code and Prudential Code 2017

10 Service Director responsible

Eamonn Croston 01484 221000

Investment Policy for 2019-20

Investment Limits:

- 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.
- The Council is able to invest up to £10million in Local Authority Pooled Investment Funds.

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

Note:

The limits set out above exclude any amounts held on the Council’s behalf by the Yorkshire Purchasing Organisation (YPO). The YPO (a consortium in which the Council has an interest) invest funds as part of their treasury management processes. For the avoidance of doubt, this element does not form part of the limits set above. For context, the Council’s proportion of YPO’s maximum investment with any given counterparty is approximately £155k.

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

Liquidity management:

The Authority uses purpose-built cash flow forecasting models to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority’s medium-term financial plan and cash flow forecast.

	Short-term Credit Ratings / Long-Term Credit Ratings			**Investment Limits per Counterparty**		**Counterparties falling into category as at Dec 2018**
	Fitch	**Moody's**	**S & P**	**£m**	**Period (2)**	
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 Bank of Scotland Yorkshire BS Leeds BS Barclays Close Bros
	AAA,AA+,AA, AA-,A+,A, A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,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,A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-			
MMF (1)	-	-	-	10	Instant access/ up to 2 day notice	
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth	
UK local authorities (Fixed term deposits)	-	-	-	10	<2mth	
Local Authority Pooled Investment Funds	-	-	-	10	>6mth	

(1) Overall limit for investments in MMFs of £50 million – the assets the funds invest in are securities and structures secured on government securities
(2) The investment period begins from the commitment to invest, rather than the date on which funds are paid over.

Credit ratings

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

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 Policy for 2018-19 onwards

2.1 The Service Director Finance 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 indicated that between 2007-08 and 2015-16 the Council provided an additional £91.2m with which it will "un-wind" over 9 years from 2017-18.

(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 over the forecast period (see the 'Gross Debt and the Capital Financing Requirement table within the Capital Strategy).

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.

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2019-20, 2020-21 and 2021-22 of £680m, £720m, £754m of its net principal. It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2019-20, 2020-21 and 2021-22 of £100m of its net principal.

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 days.

Appendix E

Investment Strategy 2019/20

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy is a new report for 2019/20, meeting the requirements of statutory guidance issued by the government in January 2018, and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with Treasury Management guidance both from the Chartered Institute of Public Finance and Accountancy and MHCLG. Average cash balances in 2019/20 for the purpose of treasury management investment are expected to average £40m plus, with fluctuations between £25m and £65m.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2019/20 for treasury management investments are covered in the treasury management strategy report 2019/20 to which this Investment Strategy is appended.

Service Investments: Loans

Contribution: The Council makes investments to assist local public services, including making loans to a variety of organisations, mainly local businesses, the local education college and local residents to support local public services and stimulate local economic growth.

The Council provided a significant loan to Kirklees College to help facilitate a new campus in Huddersfield and the delivery of a successful further education provision for post 16 students and adults across the District.

Smaller loans have also been provided to local residents to be able to provide energy efficient heating within their own homes. The Council is part of the Leeds City Region Investment Fund where all local authorities contribute to the fund which provides individual loans to support infrastructure and construction projects which help deliver economic growth and job creation.

From 19/20 the Council is planning on providing significant development finance loans to support major town centre regeneration and economic growth, up to a Council approved £38m (per the 5 year Capital Plan 2019-20 to 2023-24), through a combination of Property Investment Fund (£25m) and HD-One Fund at £13m. Amounts have been set aside in the capital plan for this type of investment.

Security: The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. Investment Strategy guidance states that in order to limit this risk, and ensure that total Council exposure to loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have to be set, and approved annually by Council. The proposed upper limits for Council loans are set out at Table 1 below:

Table 1: Loans for service purposes in £ millions

Category of borrower	**31.3.2018 actual**			**2019/20**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Further education college	16.4	0.0	16.4	**16.4**
Leeds City Region revolving investment fund	2.3	0.0	2.3	**3.9**
Local businesses and charities	0.8*	0.0	0.8*	**38.8**
Local residents	2.1	0.0	2.1	**2.1**
TOTAL	**21.6**	**0.0**	**21.6**	**61.2**

* This is made up of numerous small investments, the largest of which are £0.2m for the Media Centre and £0.2m for KSDL.

Accounting standards require the Authority to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts from 2018-19 onwards will be shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment:

The Authority assesses the risk of loss before entering into and whilst holding service loans. This will include the nature of the market/sector to which the loan relates, and loan security against business/sector assets. The single largest current loan relates to Kirklees College which is a public sector entity and considered to be a viable going concern. The strength of the Council's partnership with key anchor organisations in the district like the College, and ability to influence, support and monitor the College's ongoing financial position, are also key factors, including Council senior finance representation on the College's finance committee.

Development finance loans such as Property Investment Fund (PIF) and HD-One will allow the Council to offer loans to development projects which offer significant economic benefits to the Council and the wider Kirklees district.

Any funding offers made will be on the basis that the loan repayments made by the recipient will cover the Council's financing costs and allow for an appropriate margin on cost of funds reflecting the level of risk involved and consistent with State Aid principles. All funding offers made will be subject to appropriate due diligence, including external specialist advice where appropriate, availability of credit ratings in respect of any potential loanee where appropriate, and loan security arrangements. Each individual loan offer will be the subject of a further Cabinet report.

It would not be the intention for the Council to directly compete with existing providers of investment funding. The Council would only look to invest, at its discretion, when there was a clear and demonstrable added value case to be made in terms of local economic benefits for development finance involvement. In many instances the Council investment would be short term to cover the construction phase of development which is the most critical period for schemes to locate finance that is timely and on reasonable terms.

Once out of the development phase there is sufficient liquidity at an appropriate risk margin in the existing investment markets for schemes to be refinanced at which point the Council investment would be repaid. Any investment from the PIF would be on terms that allowed the Council to fully cover its costs, including the costs of borrowing to fund any advance, and creation of an appropriate risk contingency.

Service Investments: Shares

Contribution: The Council invests in the shares of local businesses to support local public services and stimulate local economic growth. The main share investment (£0.9m) is a 9.9% holding in Kirklees School Services Ltd which operates 20 schools on our behalf on a 32 year contract under PFI. The council also has a 40% shareholding in KSDL, a 14% holding in in QED KMC Holdings Ltd (£0.3m) and a 100% shareholding in KHBP Ltd (£0.1m).

A further £2.5m has been approved for a potential 50% shareholding in Bridge Homes currently in the Capital Plan. This is a partnership project for the building of new homes in the region.

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	**31.3.2018 actual**			**2019/20**
	Amounts invested	**Gains or losses**	**Value in accounts**	**Approved Limit**
Local businesses	1.3	0.0	1.3	3.8

Risk assessment: The Authority entered into these shareholdings for the purposes of participating in the governance and control of organisations that it considered to be important for the purposes of securing economic benefits to the borough. The Council is also the sole client in respect of one of these investments. The Council assessed the risk of participation taking account of the financial and public benefits, including the opportunity to make a potential gain in the event of the business being successful, although this was not the core purpose for initial participation. The Council assesses the risk of losses whilst holding shares by continued oversight and involvement in the strategic and operational aspects of the business, and participation in decision making, although the financial risk of the investment is perhaps lower than the operational and or reputational impacts of any failure by the companies in which the Council holds share based investments.

Liquidity: The Council has entered into these shareholdings for the purposes of delivery of its public service and community leadership obligations and the investments are considered to be long term. Viability of the investments in the long term is an important part of the strategy, but as the Councils share ownership and participation is strategic rather than financial the daily or periodic value is of less concern than the overall long term health of the organisation in which the investment is held.

Non-specified Investments: Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

Commercial Investments: Property

Contribution: The Council invests in local commercial property such as retail town centre shops and buildings.

These assets fall under the definition of Investment Properties in the CIPFA Accounting Code and are valued at fair value in the accounts in accordance with IFRS13. Fair value is when an asset is valued at its highest and best use.

Table 3: Property held for investment purposes in £ millions

Property type	Actual	31.3.2018 actual		31.3.2019 expected	
	Purchase cost	Gains or (losses)	Fair value in accounts	Gains or (losses)	Value in accounts
Commercial Property	*See below	2.2	20.8	2.0	22.8

*The purchase cost cannot be ascertained as the majority of these assets have been owned by Kirklees for many years and purchased by Huddersfield Corporation during the 1920's from Ramsdens Estate. There is a signed legal document and also a 'book of acquisition' which is a hard backed ledger held in legal services.

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2018/19 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising there from.

Risk assessment: The Authority's current commercial asset portfolio held for investment purposes is largely a historical portfolio. It is monitored and reviewed annually as part of the Council's wider asset strategy including potential future appreciation and potential receipt value.

It is not the Council's intention to invest in any new commercial portfolio investments at this time. If any new investments are identified a risk assessment would be performed.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives. Cash flow projections are prepared on a regular and timely basis.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness. The Council does not have any loan commitments, however there are some guarantees that the Council holds which are identified in the Statement of Account under Contingent Liabilities. Mainly guarantees on outstanding contributions to Pension Fund in the event of a default by certain bodies. A guarantee to the Homes & Communities Agency (HCA) in the event of a default by Kirklees Community Association (KCA) on the redevelopment of the Fieldhead Estate. The Council also act as a guarantor to a loan of £1.3m that KSDL hold in the event of default.

Capacity, Skills and Culture

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director Finance is a qualified accountant with extensive local government experience, the Strategic Director – Economy and Infrastructure has extensive experience of major Council regeneration schemes and partnerships with major business and 3rd party partners, as do key Service Directors. The Council pays for staff to study towards relevant professional qualifications including CIPFA and AAT.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Cabinet is responsible for the implementation and monitoring of any Investment policy. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to Investment. Regular training for members of the Committee is provided by our treasury advisors to enable them to make decisions to ensure accountability and responsibility on investment decisions within the context of the Council's corporate values. Any new investment decisions are also approved at full Council.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Treasury management investments	36.1	34.1	30.0
Service investments: Loans	21.6	22.7	39.2
Service investments: Shares	1.3	1.3	2.6
Commercial investments: Property	20.8	22.8	24.9
TOTAL INVESTMENTS	**79.8**	**80.9**	**96.7**
Commitments to lend	0.0	0.0	0.0
Guarantees issued on loans	1.3	1.3	1.3
TOTAL EXPOSURE	**81.1**	**82.2**	**98.0**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority's investments are funded by usable reserves and income received in advance of expenditure

Table 6: Investments funded by borrowing in £m

Investments funded by borrowing	31.03.2018 Actual	31.03.2019 Forecast	31.03.2020 Forecast
Service investments: Loans	**18.7**	**19.8**	**36.3**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	2017/18 Actual	2018/19 Forecast	2019/20 Forecast
Treasury management investments	0.3%	0.7%	0.8%
Service investments: Loans	0.6%	0.6%	0.6%
Service investments: Shares	None	None	None
Commercial investments	10.7%	10.0%	10.0%
ALL INVESTMENTS	**11.6%**	**11.3%**	**11.4%**

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Grant Thornton
An instinct for growth™

Audit Progress Report and Sector Update

Kirklees Metropolitan Council
Year ending 31 March 2019

14 January 2019

Agenda Item 9

Contents

Introduction

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This paper provides the Corporate Governance and Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- an outline external audit plan for 2018/19
- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Corporate Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk .

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

Progress at 14 January 2019

Financial Statements Audit

Our audit planning process is reaching completion and we have set out an initial outline audit plan in this document.

We are developing our detailed Audit Plan setting out our proposed approach to the audit of the Council's 2018/19 financial statements. We will discuss and agree the detailed Audit Plan with officers shortly before presenting it to the Corporate Governance and Audit Committee at its meeting on 8 March 2019.

We will complete our audit work in two phases

- Interim audit work
- Financial statements audit work

Our interim audit work will include:

- gaining an understanding of financial systems
- reviewing Internal Audit work and reports on core financial systems
- early work on emerging accounting issues
- controls testing and early substantive testing where possible

Any matters arising from our interim work will be reported to the March 2019 meeting of the Committee.

We will work with your finance team to ensure we can make a prompt start to the financial statements audit from 1 June 2019 and deliver an audit opinion in advance of the deadline of 31 July 2019.

Value for Money

The scope of our work is set out in guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The overall criterion is: "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 three sub criteria for assessment to be able to give a conclusion overall are:

•Informed decision making

•Sustainable resource deployment

•Working with partners and other third parties

Our initial draft risk assessment is set out on page 9 and will be reported in more detail in our detailed Audit Plan in March 2019.

We will report the results of our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Meetings

Since the previous committee meeting we have continued to hold regular meetings with Chief Executive and Chief Financial Officer.

We have also met with your internal audit managers and senior finance managers to gain more detailed information of your financial systems and fraud risks. We have also worked with the finance team to schedule our visits to avoid their peak workload periods..

We will continue to hold regular meetings with the finance team aim to discuss any emerging issues promptly to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, including ‘update events’ on financial reporting issues and invite the Council’s key finance staff to attend. The next event is being held in our Leeds office on 5 February 2019.

Certification of claims and returns

Certification work for the 2018/19 Housing Benefit claim will be concluded in advance of the DWP deadline of 29 November 2019.

Other certification work will be carried out within the deadlines required by the relevant government department / agency.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Outline Audit Plan Outline of key areas of work and timetable	January 2019	Complete
Detailed Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Corporate Governance & Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Corporate Governance and Audit Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract	December 2019	Not yet due

Outline Audit Plan – Logistics

- **Planning and risk assessment**
- **CG & Audit Committee** 23 January 2019 – **Outline Audit Plan presented**
- **Interim audit** January/ February 2019
- **CG & Audit Committee** 8 March 2019 – **Detailed Audit Plan incl Interim Progress Report**
- **Year end audit** June - July 2019
- **Accounts 'clearance' meeting** late July 2019 – **Agree draft Audit Findings Report**
- **CG & Audit Committee** end July 2019 – **Present Audit Findings Report**
- **Sign off date** By 31 July 2019 – **Audit opinion issued**
- **CG & Audit Committee** Sept 2019 – **Annual Audit Letter**

Robin Baker, Engagement Lead

Robin leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Council.

Marianne Dixon, Engagement Manager

Marianne plans, manages and leads the delivery of the audit. She is the first point of contact for your finance team for discussing any emerging issues.

Andrew McNeil, Engagement In-charge

Andrew's role is to assist in planning, managing and delivering the audit fieldwork, ensuring the audit is delivered effectively, efficiently and supervises and co-ordinates the on site audit team.

Outline Audit Plan

Significant risks

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	As we do not consider this to be a significant risk for the Council, we will not be undertaking any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non domestic rates and central government grants income.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council continues to face financial pressures and this could potentially place management under undue pressure in terms of how they report performance.	We will design a programme of work concentrating on the controls over journals, use of journals, accounting estimates, critical judgements, any significant unusual transactions and changes in accounting policies
Valuation of Land and building	The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, the Council needs to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used. 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. The Council also has a number of PFI financed property assets, where there are material associated liabilities arising from accounting models We have therefore identified valuation of land and buildings, particularly revaluations, impairments and for dwelling the use of the social housing factor, as a significant risk,	We will design a programme of work concentrating on the work of the valuer and the information provided to the valuer, the reasonableness of assumptions and completeness of the asset register. We will also review any material additions or disposals We will review the accounting models of PFI schemes to confirm the appropriateness of accounting transaction arising from the model.
Valuation of the Pension Fund Net Liability	The pension pension fund net liability, as reflected in the group balance sheet as the retirement benefit obligations, represents a significant estimate in the financial statements and group accounts. The group's pension fund net liability is considered a significant estimate We therefore identified valuation of the group and Council's pension fund net liability as a significant risk.	We will design a programme of work concentrating on the work of the Pension Fund actuary and information provided to it by KMC and KNH, the reasonableness of assumptions and place reliance on the work of the West Yorkshire Pension Fund auditor.

Outline Audit Plan

Group audit scope

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Planned audit approach
Kirklees Metropolitan Council (KMC)	Yes	Full audit of the KMC accounts as the significant component within the group.	Full statutory audit of the single entity BMBC accounts to be performed by the Grant Thornton group audit engagement team, to be concluded by 31 July 2019.
Kirklees Neighbourhood Housing	No	Audit of the specific area of the company's net pension fund liability and related disclosures. This relates to the significant risk of material misstatement at the group financial statements level.	Audit of the specific area of the net pension fund liability and related disclosures. This will be performed by Grant Thornton group audit engagement team, to be concluded by 31 July 2019.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transaction

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Heritage asset
- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Investments (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Welfare benefit payments
- Taxation and non-specific grants
- Other revenue
- Schools balances and transactions
- Expenditure Fund Analysis note and supporting additional notes
- Officers' remuneration note
- Leases note
- PFI Schemes
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes

Outline Audit Plan

Value for money

Our initial draft risk assessment is now reaching completion and those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money are summarised below

Risk	Response
Financial resilience – delivery of 2018-19 budget and savings plan and achievement of Medium Term Financial Plan (MTFP) The Council, in line with other local authorities, continues to operate under significant financial pressures. For 2018-19, the Council is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings, whilst managing cost pressures within Child Protection and Family Support and Adult Social Care at a time of reduced funding. The Council's latest financial projections indicate it is expecting to deliver on budget.	We will review the controls the Council has in place to ensure financial resilience, specifically that the Medium Term Financial Plan and saving plans appropriately recognises the financial risks and pressures facing the Council, assumptions are realistic and planned mitigations are robust.
Children's services 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 the issue of a statutory direction in January 2018, the Council formalised its developing partnership arrangements with Leeds City Council in a strategic partnership agreement in March 2018. The Action Plan in response to Ofsted's recommendations is monitored by the Kirklees Safeguarding Children's Board and Ofsted's monitoring reports have acknowledged that improvements continue to be made.	We will consider the range of reports and information published and available from third parties including Ofsted. We will review the up-to-date responses to the Action Plan to gain assurance that progress continues to be made and improvements embedded. We note the publication of the latest monitoring visit assessment which highlighted the 'significant progress' that has been made in improving the Council's initial response to children and young people who need help and protection.

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provider her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety

In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies).These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly owned	Joint Ventures	Social Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment

  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could me more mergers and insolvencies.

- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in todays austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.

Download the report here

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ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) recently published a paper on the ‘expectation gap’ in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What’s the problem?

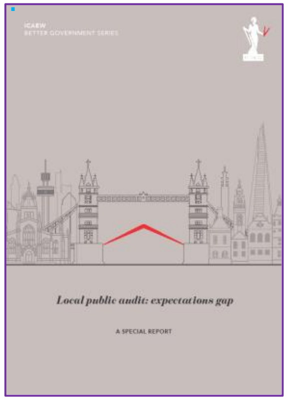
- **Short-term solvency vs. Longer-term value:**
  - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports**: ‘The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money’
- **Other powers and duties**: implementing public interest reports in addition to VFM
- **Restricted role of questions and objections**: Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance**: ‘if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance’
- **Audit committees not consistently effective**: Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees**: firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules**: new independence rules don’t allow for external auditors to take on additional work that could compromise their external audit role (revised Audit Guidance Note 01 (AGN 01) goes beyond FRC’s ethical standards))
- **Other stakeholders expectations not aligned with audit standards**
- **Increased auditor liability**: an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Solutions:

Solution a) CFO’s want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC,IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



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Links

Grant Thornton website links

https://www.grantthornton.co.uk/

http://www.grantthornton.co.uk/industries/publicsector

https://www.grantthornton.co.uk/en/insights/a-caring-society/

https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/

https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/

National Audit Office link

https://www.nao.org.uk/report/the-health-and-social-care-interface/

Ministry of Housing, Communities and Local Government links

https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

https://www.ifs.org.uk/uploads/publications/comms/R148.pdf

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Kirklees COUNCIL

Name of meeting: **CORPORATE GOVERNANCE & AUDIT COMMITTEE**
Date: **25TH JANUARY 2019**

Title of report; **Update of progress following the external assessment of the Internal Audit function**

Purpose of report; **To provide information about progress against the agreed action plan following the external assessment of internal audit in summer 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?	not applicable .
Key Decision -	not applicable
The Decision - Is it eligible for call in by Scrutiny?	not applicable
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?**	not applicable
Cabinet member portfolio	not applicable

Electoral wards affected: All

Ward councillors consulted: N/A

Public or private: Public

Have you considered GDPR? Yes

1. **Summary**

A report by the external assessor of the internal audit function was considered at the meeting of this committee on 8th September 2018, and members agreed an Action Plan to address the issues recommended by the assessor. This report provides information and an indication of actions to date.

2. **Information required to take a decision**

2.1. The external assessor was overall very complimentary about the arrangements and processes in operation, and attributed the internal audit function the highest level in the assessment (generally compliant) but made a number of recommendations.

2.2 These related to;

(a) Ensuring that the head of internal audit devotes a sufficient amount of time to the effective strategic and operational management of the internal audit function.(1.1)

(b) Promoting an effective split between the process for creating and managing risk information, and the role of internal audit in providing challenge and the role of this Committee in overseeing the Councils risk management processes.(1.2, 5.1)

(c) Accessing the skills necessary to address speciality work areas (eg cyber IT) and more generally to secure a sustainable workforce. (2.1)

(d) Increasing the number of performance measures that are used to assess the effectiveness of internal audit (3.1)

(e) The need to improve feedback/ client engagement information (4.2)

(f) Making sure that process documentation is fully completed.(8.1)

2.3 Progress made to date on each of these elements are:

(a) <u>Time devoted by the head of internal audit to the strategic and operational management of the function</u>.

The head of internal audit holds the title Head of Risk and is employed by the Council on a part time basis for 26 hours per week. The Head of Risk, as with all internal audit staff keeps a daily time record of activity. The distribution of time is;

		2017/18 % all year	2018/19 % 31st Dec 18
Specific IA projects and investigations		6	17
General Advice	Childrens	3	3
	Adults & Public Health	8	3
	Place	6	10
	Corporate	8	3
	KNH	4	3
Procurement & FPRs & CPRs		8	9
Risk Management		10	10
Trust Funds		8	10
CGAC advice		4	5
Management & Supervision		35	27

The general advice mainly relates to audit or risk based advice, but can include activities where the advice spreads to more general project advice. Variations reflect changing projects that require input.
Management and supervision relates to both the internal audit and insurance functions, and participation in corporate management activity. The proportion of time spent on insurance has been slightly higher in 2018/19 to date due to recruitment to senior posts. (This element also includes a small amount of time spent on other clients).
Time spent on audit strategy is an embedded part of management, and some of the support to this committee, would be likely to sum to around 15% of total time.

(b) Promoting a split between the creation and management of risk information, and the separate roles of internal audit in challenging entity risk identification and assessment and supporting this Committee in its role in overseeing risk arrangements.
As noted in the September 2018 report, this matter also relates to the Head of Risk. The newly introduced Risk Management Statement is still being embedded in the organisation. The arrangements include stronger governance of process, with a re-introduced requirement for direct involvement of Directors, hierarchical reporting, an internal assessment by a Risk Panel and more active involvement by the Executive Team. Some parts of the new arrangements are working well- such as the regular discussion of risk with Executive Team as a part of performance management, although the directorate based activity still requires improvement. The internal audit of risk has always been managed independently of the "Head of Risk" (by senior auditors reporting to the audit managers), and risk work by internal audit is reported to this Committee through the quarterly reporting process. An audit planning process should recognise entity risk assessment and planning, so when the Councils arrangements for risk recording are more fully embedded this part of audit planning can be fully introduced, albeit this will probably not now be effective until 2020/21.

(c) Accessing the skills necessary to address speciality work areas (e.g. cyber IT) and more generally to secure a sustainable workforce. (2.1).
Since the assessment there have been some further staffing changes within the internal audit function. Posts have been advertised to fil vacancies, the consequence has been one promotion from within the IA team, and one from the Councils accounting function, although another IA staff member has moved to the Councils procurement function. The internal promotions to the IA team should create an opportunity to enhance skilled learning into speciality areas, although it has to be recognised that some areas are potentially so specific (and have such a limited requirement) that delivery internally as a speciality activity is unrealistic. It is thus necessary to determine if enhanced generic skills of auditing are adequate- which in the most part they should be.
As regards more generally creating a sustainable workforce, the current proposal is likely to be to create a trainee level post at graduate level, with professional training, funded through apprenticeship levy. This has some advantages and disadvantages, but in the circumstance is thought the most appropriate solution.

(d) Increasing the number of performance measures that are used to assess the effectiveness of internal audit (3.1)

Audit Managers have considered the appropriateness of additional measures of performance, but do not consider that “Number of audit recommendations implemented” is a sound measurement of IA performance. The existing measures of monitoring outcome assessment (% with a positive outcome) and monitoring this over time is a more appropriate assessment of organisational health, and a more robust and regular monitoring of the implementation of agreed audit recommendations is considered a more appropriate measure (Follow up of implementation of recommendations in general- none school- audit work was reported in the Q2 report). The quarterly report continues to indicate progress on completion of the audit plan. Historically, information was also provided in each quarterly report about IA Performance- completion of work within planned time and the time taken to issue draft and final reports, although this is perhaps more appropriate for an annual report. If members of this Committee wish to receive this information quarterly it can be reinstated.

(e) The need to improve feedback/ client engagement information (4.2)

The way to do this effectively is still under consideration, and trials were considered with an online survey although there were found to be operational difficulties, but will p include an annual discussion with directorate based senior managers, and some form of survey of opinions from the auditees who assisted with audit work..

(f) Making sure that process documentation is fully completed.(8.1)

Staff were reminded about the need to complete appropriate documentation, and appropriate completion of documentation features as a part of the quality control processes (quality assessment outcomes are reported as an annual performance measure)

3. Implications for the Council

3.1 Working with People

There are no specific implications

3.2 Working with Partners

There are no specific implications

3.3 Place Based Working

There are no specific implications

3.4 Improving outcomes for children

There are no specific implications

3.5 Other (eg Legal/Financial or Human Resources)

Having a sound internal audit function is an important part of delivering good governance and, economic, effective and efficient services which achieve the policy outcomes that the organisation intended.

4. Consultees and their opinions

Not Applicable/ None

5. Next steps and timelines

A further update will be undertaken in 6-9 months-time. A further internal assessment of performance against the Public Sector Internal Audit Standards will be required in respect of the year ended 31st Mach 2019

6. **Officer recommendations and reasons**

The report be noted

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

Not applicable

8. **Contact officer**

Martin Dearnley, Head of Risk (& Internal Audit)

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

CGAC 8 September 2018 External Assessment of Internal Audit, as required by Public Sector Internal Audit Standards

10. **Service Director responsible**

Legal Governance & Commissioning - Julie Muscroft

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Kirklees COUNCIL

Name of meeting: CORPORATE GOVERNANCE &AUDIT COMMITTEE
Date: 25TH JANUARY 2019
Title of report: QUARTERLY REPORT OF INTERNAL AUDIT Q3 2018/19 OCTOBER 2018-DECEMBER 2018

Purpose of report; To provide information about internal audit work in quarter 3 of 2018/19

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 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?**	**not applicable**
Cabinet member portfolio	**not applicable**

Electoral wards affected: All

Ward councillors consulted: None

Public or private: Public with a private appendix

Have you considered GDPR? Yes

1. **Summary**

1.1 This report sets out the activities of Internal Audit in the third quarter of 2018/19. This report contains information about 18 formal opinion based pieces of work, 7 other projects or tasks and 5 newly completed audits related to the Housing Revenue Account (HRA) and Kirklees Neighbourhood Housing, and an update on one investigations .

1.2 Of the 18 reports that include assurance levels, all of the 10 schools offered substantial or adequate assurance. Of the other work, two audits related to procurement and contract management had adequate assurances, but there was only limited assurance in relation to Performance Information and in respects of aspects of health and safety operations.

1.3 There were 4 follow up, 3 of these were adequate (home care charges, purchasing cards and bank reconciliation). The area that still required improvement related to deferred charges on Adult Social Care.

1.4 Overall, 83% of council work in the period attracted a positive outcome- which is substantially better than the last period but based again on quite a small sample. The cumulative positive outcome for the year is 77%- slightly below the target of 80%.(last year outturn 78%).

1.5 Internal Audit time was also spent on assessing GDPR compliance and payroll overpayments, amongst other tasks.

1.6 Internal Audit resourcing continues to be challenged. Whilst there is adequate budget, there is some labour turnover. A number of investigations, and the need to prioritise some high risk areas (which have taken longer than planned) have reduced the ability to complete some operational assurance audits on financial and business systems.

1.7 It was agreed at March 2018 Council that this committee consider any surveillance activities under the Regulation of Investigatory Powers Act 2000. (Annex 1). There are none this quarter. The Cabinet will consider changes to the Policies related to this work to reflect GDPR and statutory guidance.

1.8 This report includes a summary of progress against the actions contained as a consequence of the 2017/18 Annual Governance Statement, although a number of entries are unchanged from Quarter 2.

2. **Information required to take a decision**

2.1 The detail is contained within the private Appendix.

3. **Implications for the Council**

3.1 **Working with People –** None directly

3.2 **Working with Partners –** None directly

3.3 **Place Based Working –** None directly

3.4 **Improving outcomes for children–** None directly

3.5 **Other (eg Legal/Financial or Human Resources)-** Although each of the sub categorisations above suggest no direct implications, the work of internal audit covers all aspects of the councils operations, including elements of the above, either specifically, indirectly or on a commissioned basis. The main issues relate to those areas highlighted above- where there are risks associated with basic processing arrangements, and delivering sound governance and control.

4. Consultees and their opinions

There are no consultees to this report although heads of service/directors are involved in and respond to on individual pieces of work

5. Next steps and timelines

5.1 To consider if any additional activity is sought.(Limited assurance audit outcomes are routinely followed up)

6. **Officer recommendations and reasons**

6.1 Members are asked to note the Internal Audit Quarterly Report and determine if any further action is sought on any matter identified.

6.2 Members are also asked to note that there has been no Regulation of Investigatory Powers Act activity during the period quarter 3 2018/19.

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

Not applicable

8. **Contact officer**
Martin Dearnley, Head of Risk & Internal Audit (01484 221133 x73672)

9. **Background Papers and History of Decisions**
Previous Quarterly reports, Audit Plan and confidential appendix

10. **Service Director responsible**
Not applicable

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

Agenda Item 13

Document is Restricted

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