

Public Document Pack



**Service Director – Legal, Governance and
Commissioning**

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Thursday 9 May 2019

Notice of Meeting

Dear Member

Corporate Governance and Audit Committee

The **Corporate Governance and Audit Committee** will meet in the **Old Court Room - Town Hall, Huddersfield** at **10.00 am** on **Friday 17 May 2019**.

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

A handwritten signature in black ink, appearing to read "Julie Muscroft", on a light-colored background.

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 Carole Pattison
Councillor Kath Pinnock
Councillor John Taylor
Conservative Group Vacancy
Green Group Vacancy
Labour Group Vacancy
Liberal Democrat Vacancy

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

B Armer
V Lees-Hamilton
N Patrick
M Thompson

Green

K Allison
A Cooper

Independent

C Greaves
T Lyons

Labour

S Hall
N Mather
M Sokhal
R Walker

Liberal Democrat

R Eastwood
C Iredale
A Munro
A Pinnock

Ex Officio Members

Councillor Graham Turner – Cabinet Member (Resources)

Agenda

Reports or Explanatory Notes Attached

Pages

1: Appointment of Chair

To appoint a Chair for this Meeting of the Committee.

2: Membership of the Committee

This is where Councillors who are attending as substitutes will say for whom they are attending.

3: Interests

1 - 2

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.

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:	Place Lead Role	3 - 8
	To consider the report.	
	Contact: Carl Whistlecraft, Head of Democracy	
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7:	Annual Procurement Update	9 - 18
	To receive the report.	
	Contact: Jane Lockwood, Head of Procurement and Commissioning	
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8:	Annual Report on Treasury Management 2018-19	19 - 42
	To receive the report.	
	Contact: Eamonn Croston, Finance Director	
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9:	External Audit - Progress Report and Sector Update	43 - 64
	To receive the report.	
	Contact: Robin Baker, External Audit	
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10:	External Audit Fee	65 - 68
	To receive the report.	
	Contact: Robin Baker, External Audit	
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11:	Annual Report of Corporate Governance and Audit Committee 2018/19	69 - 76
	To receive the report.	
	Contact: Martin Dearnley, Head of Audit and Risk	

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KIRKLEES COUNCIL				
COUNCIL/CABINET/COMMITTEE MEETINGS ETC				
DECLARATION OF INTERESTS				
Corporate Governance and Audit Committee				
Name of Councillor				
Item in which you have an interest	Type of interest (eg a disclosable pecuniary interest or an "Other Interest")	Does the nature of the interest require you to withdraw from the meeting while the item in which you have an interest is under consideration? [Y/N]	Brief description of your interest	

Signed: Dated:

NOTES

Disclosable Pecuniary Interests

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

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

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

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

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

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

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

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

Any beneficial interest which you, or your spouse or your civil partner has in securities of a body where -

- (a) that body (to your knowledge) has a place of business or land in the area of your council or authority; and
- (b) either -

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

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

Name of meeting: Corporate Governance and Audit Committee

Date: Friday 17 May 2019

Title of report: Locality Lead Role

Purpose of report

To propose the creation of a new Locality Lead role for councillors with effect from the 2019/20 Municipal Year.

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?)	Not applicable
The Decision - Is it eligible for call in by Scrutiny?	Not applicable
Date signed off by <u>Strategic Director</u> & name	Rachel Spencer Henshall - 9 May 2019
Is it also signed off by the Service Director (Finance)?	Eamon Croston - 9 May 2019
Is it also signed off by the Service Director for Legal Governance and Commissioning?	Julie Muscroft - 9 May 2019
Cabinet member portfolio	Councillor Shabir Pandor, Leader of the Council

Electoral wards affected: All

Ward councillors consulted: Not applicable

Public or private: Public

1. **Summary**

In the context of the council's strategic approach to Place Based Working the Leader, in dialogue with the Chief Executive, has asked that a new councillor role of Locality Lead is created in the context of the wider Members Allowances Scheme.

This report seeks to explain the role and thereafter propose a mechanism for its creation and subsequent consideration by the Members Allowances Independent Review Panel.

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

The Council's approach to place-based working is progressing. This involves the development of a locality based approach to exploring and progressing certain issues that are best addressed at this level. It acknowledges that not all issues and challenges are best addressed at either a Ward or borough-wide level. It is important that this work has cross-party councillor oversight in terms of its development and focus

As part of this developing approach the Leader of the Council, in dialogue with the Chief Executive, recognises the importance of elected councillor leadership at a locality level. He has therefore proposed the creation of a new role of Locality Lead (draft role profile attached) which would be allocated on a 4:1:1:1 ratio covering the following:

- Batley, Birstall and Birkenshaw;
- Spen Valley;
- Dewsbury;
- Huddersfield North;
- Huddersfield Central;
- Huddersfield Rural;
- Colne Valley

In the first instance the Leader wishes for these roles to be established and agreed by Council in order for Locality Leads to begin to take on new responsibilities and collectively work with officers to progress locality working in more detail. The intention is that they are in place at the beginning of the new Municipal Year

In the near future the role will be considered by the Members Allowances Independent Review Panel who will determine where the role sits in the banding arrangements in the Allowances Scheme

3. **Implications for the Council**

3.1 **Working with People** – Locality working, and our wider approach to place-based working, is wholly predicated on working outwards from communities with a strong focus on genuine engagement and dialogue. The proposals set out in this report should be seen within this context.

3.2 **Working with Partners** – Locality working is being developed in a way that recognises the need for certain issues to be discussed and addressed at a locality level. They are of the type e.g. mental health that demand wider

partnership dialogue, co-production and solutions. Partnership working will be at the heart of our developing approach to locality working.

- 3.3 **Place Based Working** – Locality working is an important part of our developing approach to place based working.
- 3.4 **Improving outcomes for children** – Locality working will inevitably incorporate the consideration, discussion and progression of issues that will improve outcomes for children within those seven localities.
- 3.5 **Other (eg Legal/Financial or Human Resources)** – The Members Allowances Independent Review Panel will consider the proposed role in the context of the wider Allowances Scheme.

4. **Consultees and their opinions**

The proposal to establish the role of Locality Lead was considered at the Chief Executive's Leading Members meeting on 1 April 2019 where indicative support was given.

The following have been consulted on the contents of this report and agree with the proposals contained therein:

The Leader of the Council;
The Chief Executive;
The Strategic Director for Corporate Strategy, Commissioning and Public Health

5. **Next steps and timelines**

The proposal will be considered at the meeting of Annual Council on 22 May 2019. Given the scheduling, this item has been included on the agenda for Annual Council. Any comments arising from consideration by Corporate Governance and Audit Committee will be fed into the discussion which will take place at Annual Council. Subject to approval the role will be considered by the Members Allowances Independent review Panel at a date to be determined.

6. **Officer recommendations and reasons**

That Corporate Governance and Audit Committee consider the proposal to establish the role of Locality Lead;

That thereafter, Council is recommended to establish the role of Locality Lead (as set out in the attached role profile) on a 4:1:1:1 basis;

That the Members Allowances Independent Review Panel consider the role in the context of the wider scheme

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

That the officer recommendations be approved.

8. **Contact officer**

Carl Whistlecraft, Head of Democracy
Carl.whistlecraft@kirklees.gov.uk

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

Not applicable

10. **Service Director responsible**

Rachel Spencer Henshall, Strategic Director for Corporate Strategy, Commissioning and Public Health

Locality Lead Councillor

Leading, Representing and Working Together

A Kirklees Locality Lead Councillor will work with the designated Cabinet Lead Member to develop and implement Place Based Working within a geographical area using a topic or theme based approach. They will:

- Provide leadership at a locality level to facilitate the involvement of councillors, officers and partners;
- Commission intelligence and insight to facilitate the identification of topics that are a priority for the respective locality in the context of the 7 shared outcomes;
- Identifying, supporting and building community capacity in the context of locality working
- Inform the approach to citizen engagement and thereafter have oversight of the engagement activities that will be used to discuss the topic identified;
- Ensure that locality stakeholders, community organisations and the VCS are involved in such engagement;
- Develop and maintain effective working relationships with officers and partners to facilitate the delivery of locality responsibilities;
- Facilitate partnership working with other agencies in the context of citizen engagement activity and responding to the outcomes of such work;
- Oversee the development and implementation of identified actions, resource allocation and commissioned activity in response to commissioned work;
- Monitor progress against agreed actions in the context of delivering against outcomes;
- Work effectively with the media
- Be a confident and effective public speaker

Locality Lead Councillor

Governance and Decision Making

A Kirklees Locality Lead Councillor:

- Have responsibility for, and provide a lead on, the initiation and development of the approach within each locality.
- Ensure that the work taking place in the locality for which they are responsible is reported into the relevant council and partnership governance structures;
- Consider and have regard to professional officer advice when taking decisions.
- Work proactively and constructively with ward councilors within the respective locality.
- Attend Overview and Scrutiny Committee and Scrutiny Panels to discuss the work for which they are responsible (as appropriate)



Name of meeting: Corporate Governance & Audit Committee
Date: 17th May 2019
Title of report: Procurement Update

Purpose of report

To update on procurement compliance activity in financial year 2018/19. The report is for information and comment.

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 <u>Strategic Director</u> & name	Julie Muscroft 8 may 2019
Is it also signed off by the Service Director (Finance)?	Not applicable
Is it also signed off by the Service Director for Legal Governance and Commissioning?	Yes
Cabinet member portfolio	Cllr Graham Turner

Electoral wards affected: N/A

Ward councillors consulted: N/A

Public or private: Public

(Have you considered GDPR?)

Check [\(Link to Report Template Guidance – please read before writing your report\)](#)

1. Summary

- 1.2 The Contract Procedure Rules cover the procurement of all supplies (goods, works and services) and Income Contracts. The Contract Procedure Rules aim to promote the highest standard of probity, integrity and impartiality in making a clear, understandable and fair selection of suppliers and supplies to the Council. EU procurement rules also apply to the procurement of all works, goods, and services exceeding the EU Threshold
- 1.3 The Annual Governance Statement for 2017/18 noted that Procurement Rule compliance needed strengthening to protect the Council from legal challenge and ensure value for money. A new management structure had been agreed but yet to be implemented, designed to provide a more centralised focus and strengthen arrangements.
- 1.4 A procurement update was received at Corporate Scrutiny Panel on the 12th April 2019, papers are available here;
<https://democracy.kirklees.gov.uk/documents/s28279/Item%207%20Report%20-%20Procurement%20update%20Corporate%20Scrutiny%20v2.pdf>

This report seeks to give an overview of headline activities undertaken to strengthen procurement rule compliance, key activities include;

2. Progress to date on the implementation of the new structure

- Steady progress in all recruitment activities continues to be made.
- 5 out of 6 of the Strategic Category Manager Posts were recruited to in September 2018.
- Recruitment was undertaken by mixed stakeholder panels to ensure the right balance of procurement expertise and specialist knowledge of the relevant category areas of spend.
- Further recruitment undertaken November 2018 (3 Senior Procurement Specialists) and January 2019 (4 Senior Procurement officers)
- Recruitment is currently underway to fill the remaining category manager post and senior procurement officer posts.
- The final area of focus is to look at apprenticeship opportunities and career pathways within the existing structure.

3. Progress to date on implementing a new approach to procurement across the Council Category Management;

- Category Managers are currently developing draft category plans for their particular areas of spend, focussing on local (& regional/national) priorities, opportunities and challenges. At a high level the strategies will identify key procurement pipeline activities, full contracts visibility, emerging risks and opportunities and a forward plan of activity (and any additional local key performance indicators agreed with key stakeholders.)
- Much of the category managers focus and activity to date has centred around stakeholder engagement and connecting with the local market (and running specific market engagement events)
- Category Managers are taking ownership for their particular areas and are working with Service Leadership Teams to continue to improve the visibility of Councils contracts register, highlighting key risks and feeding into the Councils risk management approach, raising non-compliant activities and agreeing actions to move to compliant arrangements and developing bespoke packages of training to be delivered across service areas.
- A key interdependency for the category managers is the ability to be able to receive accurate, timely reports on current council spending (as well as being able to call on

external data/market trend information). This is currently not readily available and takes a considerable time to manually collate.

4. Procurement Measures

A full suite of internal procurement measures have been developed to give more transparency around performance and impact (effective from 1st April 2019), these will be iterative and likely to change over time. Any savings recorded in the procurement measures remain as cash reductions within Directorate budgets to avoid double counting with the focus of procurement being utilised as an enabler across the Council. Further details of the measures on Appendix A. The measures focus on a range of qualitative and quantitative data covering the following areas;

4.1 Benefits

- Identifying financial savings using a clear rationale to indicate the type of savings (e.g. Price reduction, demand management)
- Added Value benefits; Demonstrating the added value/non cashable benefits achieved that link directly to the councils outcomes

4.2 Category Management

- Establishing category plans
- Risks; Proactively capturing, raising, managing, mitigating category specific risks and feeding information through to the corporate risk monitoring process
- Market trends; maximising the use of data and intelligence in order the category strategies add value by bringing knowledge of; market expertise, cost and price factors, supply chain pressures and options for models of delivery.
- Strategic Relationship Management; Identifying the top 10 high risk/high value suppliers in each category with a view to leveraging value from the relationship and creating value beyond the contract.
- Highlighting the benefits of category led approach through case studies

4.3 Compliance & Process Efficiency

Predominantly quantitative measures to capture volumes (e.g. number of procurements, number of contracts held on the contracts register, number of suppliers, number of aborted procurements, number of legal challenges etc.)

4.4 Procurement staff; Capturing skills and culture of the procurement team

4.4 Stakeholder and supplier experience; Capturing a sense of how easy it is to bid for contracts and work with the team alongside providing opportunities to feedback and apply any lessons learnt

4.5 Supplier engagement; Capturing the level and impact of proactive supplier engagement

4.6 Social Value

- Capturing the percentage of local spend at a Kirklees, West Yorkshire and Yorkshire & Humber level
- Capturing the percentage of spend with SMEs
- Evidencing the impact / benefits gained from the inclusion of social value criteria in procurement of goods, works and services.

There remains some challenges and interdependencies around the quality of our spend data and reporting mechanisms. Procurement are working with colleagues in the

Intelligence Hub and HD-One to address this (and recruitment will be underway shortly for a procurement analyst).

5. Key Challenges

Whilst substantial progress is being made in regard to procurement compliance, a number of key challenges still remain which we continue to work on;

- Historically many procurement activities are urgent and there is considerable time pressure. Our focus is how we move from re-active procurement activities to a proactive state allowing enough time to ensure we deliver value for money (and give the market visibility of potential opportunities) through our new approach.
- Data; this a key interdependency, we need access to effective and reliable internal data (looking at historical spend) and external data (understanding market position etc.).
- Finding the right balance of proportionality and ensuring value for money.
- Specifications; we need to deliver adequate support and challenge to ensure that we are not over specifying or narrowing the market through our specifications.
- Contract Management; we need to ensure effective management of our contractors and consider how procurement can support Council contract managers to do this when a new contract is established.
- Brexit; if the UK leaves the EU without a deal, the public procurement regulations will remain broadly unchanged. The regulations will, however, be amended to ensure that they remain operable and functional on exit. The key difference for contracting authorities will be the need to send notices to a new UK e-notification services instead of the EU Publications Office. The key challenge will be around certainty of supply of potential price fluctuations.

6. Information required to take a decision

Report for information purposes only.

7. Implications for the Council

7.1 Working with People

The work of the team in implementing our new approach to procurement is rooted in working with people and partners.

7.2 Working with Partners

The work of the team in implementing our new approach to procurement is rooted in working with people and partners.

7.3 Place Based Working

N/A

7.4 Improving outcomes for children

Any improved outcomes for children will be recorded in the procurement measures.

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

N/A

7.6 Consultees and their opinions

N/A

8 Next steps and timelines

This report updates Corporate Governance and Audit Committee with the progress currently being made with regards to implementing a new approach to procurement. Next steps include full implementation of the new structure and the internal procurement performance measures over the financial year 2019/20. Further activities include development of a new procurement strategy and a revised social value framework.

9 Officer recommendations and reasons

Members are asked to note the update on procurement.

10 Cabinet portfolio holder's recommendations

Not applicable

11 Contact officer

Jane Lockwood, Head of Procurement and Commissioning Support – Legal, Governance and Commissioning

Telephone: 01484 221000 Email: janea.lockwood@kirklees.gov.uk

12 Background Papers and History of Decisions

Corporate Scrutiny Panel, 12th April 2019

Corporate Scrutiny Panel session, 1st March 2019

Corporate Scrutiny Panel, 31st August 2018; Transformation Procurement Project

13 Service Director responsible

Julie Muscroft, Service Director – Legal, Governance and Commissioning, First Floor (Executive Suite), Civic Centre 3, Huddersfield

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Theme	Ref.	Measure	Latest	Target	Type	Frequency	KPI Reporter	Notes
Benefits	1	Financial savings delivery by type (cashable)		Baseline	Quantitative metric	Quarterly and annual	Category Manager	All procurement team members to update for each procurement activity. Use the separate tracker to capture & detail each instance of savings delivery, indicating type of saving whether price reduction, demand management etc. There needs to be a clear record and rationale for the saving metric documented.
	2	Added value benefits (non cashable) linked to Councils outcomes		2 per Strategic category per year	Case Studies	Quarterly and annual	Category Manager	All procurement team members to update for each procurement activity. Capture case studies demonstrating the added value/non cashable benefits achieved through the commissioning and procurement cycle that directly link to the councils shared outcomes
Category Management	3	Category Plan		Strategic category plan in place	Quantitative metric	Annual	Category Manager	Category plan established and refreshed annually (minimum) ensuring key stakeholders have been engaged throughout and key priorities have been agreed with appropriate local indicators to measure progress. Category strategies will support and complement service and commissioning plans.
	4	Visibility and management of key risks and issues		Input to quarterly risk reporting	Qualitative	Quarterly	Category Manager	Proactively capturing, raising, managing, mitigating and accepting key risks by type for each category
	5	Production of market trend intelligence to inform category strategy		Baseline	Quantitative & qualitative metric	Annual	Procurement Analyst	Maximise the use of data and intelligence in order that category strategies add value by bringing knowledge and understanding of an area of spend; including market expertise, cost and price factors, supply chain pressures and options for models of delivery.
	6	Strategic Relationship Management (SRM) in place for Top 10 strategic suppliers per category				Future metric to be developed during 2020 (once baseline data and transparency improved and category plans in place)	Category Manager	Identifying high risk/high value suppliers. Embedding an approach to SRM that goes beyond the management of individual contracts and looks at all aspects of an organisation's interaction and relationship with a third party provider & leveraging value from the relationship & creating value beyond the contract
	7	Benefits of category management		Annual review	Case Studies or report	Annual commencing financial year 19/20	Category Manager	Linked to category priorities demonstrating the value of a commissioning approach and embedding a category management approach
Compliance	8	Contracts transparency		Annual audit / self assessment	Quantitative metric	Annual	Senior Procurement Officer	Undertake a sample check of contracts ensuring compliance with Transparency Regulations and CPRs
	9	Number of staff trained by procurement		Baseline	Quantitative metric	Quarterly and annual	Senior Specialist	Training events run by procurement to improve understanding and knowledge e.g. Guide to Contract Procedure Rules (CPRs), Procurement Portal (Yortender), Evaluation Panel Training etc.
Process Efficiency	10	Number of procurements handled through the procurement team		Baseline	Quantitative metric	Quarterly and annual	Senior Specialist	Monitor throughput / activity levels for all procurement activities
	11	Commissioning / Procurement cycle time (breakdown in to stages, e.g. initial contract, preparation of spec, market engagement, advert, award.....?) Difficult but think it will be worthwhile to monitor		Baseline	Quantitative metric	Quarterly and annual	Senior Specialist	This metric is more about understanding where pressures are, how efficient the cycle is, what if any improvements can be made. This needs to be benchmarked against indicative timescales that procurement indicate for activities (EU/below EU)
	12	Number of aborted procurements		Baseline	Quantitative metric	Annual	Senior Specialist	Need more visibility around number of aborted procurements, the reasons, and where applicable how we take forward any lessons learnt
	13	Number of Legal Challenges		Baseline	Quantitative metric	Annual	Head of Procurement	Visibility of any legal challenges to procurement process and lessons learnt
	14	Top 5 items purchased through Purchase Cards			Qualitative metric	Quarterly and annual	Senior Procurement Officer	Top 5 items purchased by value and/or volume - Ad hoc proactive checks to ensure appropriate use of purchase card expenditure - identifying areas of opportunity and improvement
	15	Top 5 reasons for exemptions		Baseline	Qualitative metric	annual	Senior Specialist	Most common reasons for exemptions to the Council's CPR's
	16	Number of contracts held in the contracts register		Baseline	Quantitative metric	Quarterly and annual	Senior Specialist	Use contracts register to capture number of live contracts, monitor expired contracts
	17	Number of suppliers		Baseline	Quantitative metric	Quarterly and annual	Procurement Analyst	Transparency around number of suppliers and linking to pareto analysis
	18	£ Third Party Spend recognised by procurement		Baseline	Quantitative metric	Quarterly and annual	Procurement Analyst	Using spend reports from finance systems, monitor total third party spend by across the council and per category (excl. VAT, taxes & grants)
Procurement Staff	19	% Spend under contract		Baseline	Quantitative metric	Quarterly and annual	Procurement Analyst	Monitor % of total third party spend accounted for by contracts register
	20	% Chartered Institute of Procurement & Supply (CIPS) qualified (or working towards qualification or development plan)		CIPS equivalent or training	Quantitative metric	Annual	Head of Procurement	Provide staff with the tools and knowledge to carry out their roles effectively. Promote and support professional training opportunities including CIPS
	21	Continuous Professional Development		Training for or qualified in CIPs or equivalent	Quantitative metric	Annual	Head of Procurement	Number of CPD sessions and topics, including lessons learnt from best practice
	22	Appraisals		100% mandatory CPD completed	Quantitative metric	Annual	Head of Procurement	Timely and quality appraisals for all staff
Stakeholder experience	23	Procurement team feedback		100% completion	Soundbites	annual (and 1:1s)	Head of Procurement	Capture key feedback on a periodic basis about the culture of the team and what its like to work here
	24	% Customer satisfaction rating		baseline	Quantitative metric	Per procurement; quarterly and annual	Business Support	Survey to all customers/services for each procurement activity - Question 1: How would you rate your experience (1-10) Produce quarterly average % rating
	25	Customer feedback		Qualitative	Soundbites	Per procurement; quarterly and annual	Business Support	Gather key qualitative feedback from customers as part of survey above. Collate and review each quarter and by category
Supplier Experience	26	Annual survey of key stakeholders		Qualitative	Soundbites		Head of Procurement	Qualitative feedback from key stakeholders focused around the value of category management in helping to achieve outcomes and collaborative working
	27	Percentage bidder experience rating	#REF!	Baseline	Quantitative metric	Per procurement; quarterly and annual	Business Support	Survey to all bidders for each procurement (pre-award) - Question 1: How would you rate your experience (1-10) Produce quarterly average % rating
Supplier Engagement	28	Supplier feedback	#REF!	Qualitative	Feedback	Per procurement; quarterly and annual	Business Support	Capture any other feedback comments from bidders on positives and ideas for improvement. Review per procurement and collate quarterly
	29	Number of supplier and market engagement sessions	#REF!	Baseline	Quantitative metric	Quarterly and annual	Category Manager	Capture the level of engagement across the council and per category relating to procurement engagement activities (This would include meet the buyer sessions, market engagement etc.)
Social Value	30	Supplier engagement case studies	#REF!	2 per Strategic category per year	Case Studies	Annual	Category Manager	Capturing the impact that good, timely supplier engagement can have through case studies (e.g. true dialogue, understanding potential barriers and challenges, change in specification or approach due to market feedback)
	31	% of Local Spend - Kirklees	#REF!	baseline	Quantitative metric	Quarterly and annual	Procurement Analyst	Based on a specific methodology
	32	% of Local Spend West Yorkshire		baseline	Quantitative metric	Quarterly and annual	Procurement Analyst	Based on a specific methodology
	33	% of Local Spend Yorkshire & Humber		baseline	Quantitative metric	Quarterly and annual	Procurement Analyst	Based on a specific methodology
	34	% of spend with SMEs		baseline	Quantitative metric	Quarterly and annual	Procurement Analyst	The Council increases it's spend with local suppliers, SMEs and VCSE across all categories through taking proactive action to identify, engage, lot contracts, simplify procurement process and reduce potential barriers wherever possible (relates to items 31-34)
	35	Social Value case studies	#REF!	2 per Strategic category per year	Case studies	Annual	Category Manager	Seek to gain maximum value from procurement (& contract management) through inclusion of social value criteria for goods, works and services



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Introduction

Capturing the added value that procurement can bring. Please note this is not an exhaustive list. All saving activities are to be captured along with a clear record and rationale of how the figure has been derived.

Ref	Type of Saving	Description	Guidance for reporting and recording savings and added value
1	Direct Price Based Savings	Baseline for reporting price based savings	For new contracts that replace pre-existing contracts - the savings should be versus previous price paid at the end of the previous contract(s) period.
			For new contracts / procurements that haven't taken place before (eg ad hoc requirements) the benchmark would be the average price of top 5 acceptable compliant highest ranked bids (or all the bidders if less than 5)
			For collaborative agreements where there is no pre-existing collaborative agreement to benchmark against and appropriate base line would be agreed with the Head of Procurement
			Active price management; by applying awareness of price trends (e.g. labour and/or market indices) to either achieve net savings, or costs avoidance to minimise or eliminate increased costs
2	Demand Management	Is applicable where internal demand & consumption can be influenced to reduce costs	A saving should not be claimed where a service is reduced in a way that has a negative impact on services the public receives or reduces quality below a level that is genuinely required.
			For any saving to be claimed in this area, it must be demonstrated that; - The same business requirements and appropriate quality standards are still being met; or; - Any reduction of service is of low priority activity and that this reduction has been explicitly reported and approved within normal business activity / governance arrangements
			Examples of demand management; - Management consultancy; challenging the need & making better use of lower cost alternatives - Travel; making better use of technology and lower cost options - Office equipment; rigorously manage supply to meet needs taking into account reducing numbers of users.
3	Make v Buy / Outsourcing	Savings made by the transfer of a service to / from external suppliers	Savings are made in this area by the transfer of a service to / from external suppliers. The same business requirements and quality standards are still met. Savings figure needs to be agreed/ratified with contract manager and/or service area
4	Cost Removal	Savings generated by using an alternative solution that resulted in no purchase being made	Savings are made in this area by using an alternative solution that resulted in no purchase being made (eg. Reciprocity, sponsorship)
5	Added Value	Additional benefit generated through a contract	Savings in this area may include services that previously were direct costs to the council and are now included in the price of a contract (for example; production of management information, undertaking additional tasks and duties that have been historically performed by the council, leveraging supplier relationships to deliver more) Savings need to be ratified with the contract manager and/or service area.
6	Risk Reduction	Reduced costs through risk based approach	Savings in this area may include changes to terms and conditions, payment terms, such as staged payments or retentions will result in a reduction in both cost and risk. Likely to be a one-off saving and not be extended over the life of the contract
7	Payment terms based savings	Savings relating to different payment strategies	Savings in this area may include; Early payment discount or introduction of a more efficient contract payment mechanism. Saving would need to be agreed / ratified with HD-One and contract manager

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Name of meeting: Corporate Governance and Audit Committee

Date: 17 May 2019

Title of report: Annual Report on Treasury Management 2018-19

Purpose of report

Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the previous financial year. The report reviews borrowing and investment performance.

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)?	Yes
The Decision - Is it eligible for "call in" by Scrutiny?	Yes
Date signed off by Service Director & name	Eamonn Croston : 8 May 2019
Is it also signed off by the Service Director for Finance, IT and Transactional Services?	As above
Is it also signed off by the Service Director for Governance and Commissioning Support?	Julie Muscroft – 9 May 2019
Cabinet member portfolio	Cllr Graham Turner

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or private: **Public**

GDPR: This report contains no information that falls within the scope of General Data Protection Regulations

1. Summary

1.1 The Council's treasury management operation for the year has followed the strategy approved by Council on 14 February 2018.

Investments averaged £45.2 million, were largely deposited in instant access accounts and earned an average interest rate of 0.67%. Total external borrowing decreased for the year by £18.8 million to £394.4 million. (£413.2m 31st March 2018) The decrease is due to a variety of reasons including; repayment of existing debt, slippage in the capital plan and higher internal borrowing due to increases in overall reserves levels from budgeted. The majority of actual temporary borrowing in-year was on fixed rate terms and the average borrowing rate for 2018-19 was 4.62%.

- 1.2 In 2017-18 the Council approved a revision to its Minimum Revenue Provision (MRP) policy, which relates to the amount of revenue resources set aside each year to provide for its outstanding debt repayments over the longer term. This was done by updating its approach to Supported Borrowing from 2007-08 onwards, moving from a 4% reducing balance to an annuity basis in its repayment of debt.
- 1.3 In updating the approach the Council effectively over-provided in previous years the re-payment of debt to the sum of £91.1m. Within the Treasury Management Strategy 2018-19 the Council set out its approach to unwind this over-provision at £9.1m each year over the next 10 years, starting from 2017-18 onwards.
- 1.4 Following approval within the 2019-20 Treasury Management Strategy there is a further increase in the un-winding for 2018-19 and 2019-20. 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. In the 2018-19 accounts this has resulted in the budgeted over-provision element of £13.4m being transferred to revenue reserves in order to strengthen the Council's overall financial resilience as per the Council's approved reserves strategy.
- 1.5 Treasury management costs incurred in the year include £10.1 million on net interest payments and £0.1 million on providing for the repayment of debt (MRP). The Council complied with its treasury management prudential indicators in the year.
- 1.6 This report also notes a number of early 2019-20 treasury management issues for consideration. These include options for re-financing a current Lender Option-Borrower Option loan of £10m, and also considers potential Council investment in a property fund investment fund, CCLA, specifically set up for not-for profit investors, including local authorities.

2. Information required to take a decision

2.1 Background

- 2.1.1 The Council has adopted the CIPFA Code of Practice on Treasury Management and operates its treasury management service in compliance with this Code and various statutory requirements. These require that the prime objective of the activity is to secure the effective management of risk, and that borrowing is undertaken on a prudent, affordable and sustainable basis.
- 2.1.2 Council Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the year. Cabinet is responsible for the implementation and monitoring of the treasury management policies. Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management.
- 2.1.3 In reviewing 2018-19 performance, reference will be made to the Treasury Management Strategy Report approved by Council on 14 February 2018.

2.2 Borrowing and Investment Strategy 2018-19

- 2.2.1 The Councils overall Treasury Management Strategy prioritises security, liquidity and risk management which was adhered to in 2018-19. The Council aims to invest externally balances of £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested “internally”, offsetting borrowing requirements. The investment strategy is designed to minimise risk, investments being made primarily in instant access accounts or short-term deposits, with the major British owned banks and building societies, or Money Market Funds.

2.3 The economy and interest rates

Below paragraphs 2.3.1-2.3.2 are a commentary from our external treasury management advisors, Arlingclose

- 2.3.1 UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year on year, just above the consensus forecast but broadly in line with the Bank of England’s February Inflation Report. The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.
- 2.3.2 After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend.

Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.

2.4 Investment activity

2.4.1 The Council's treasury management investments totalled £39.1 million as at 31 March 2019 (£36.1 million 31 March 2018). The Council invested an average balance of £45.2 million externally during the year (£37.9 million 2017-18). Income of £195k was generated through these investments (£98k 2017-18). Appendix 1 shows where investments were held at the beginning of April, the end of September and the end of March, by counterparty, by sector and by country. The Council's average lending rate for the year was 0.67% (0.26% 2017-18). The increase in interest rates between the years reflects the Base Rate in 17-18 being 0.5% and in the current year there was an increase in August of 0.25% to 0.75%, but there is also an element of lag in institutions passing on the benefit of higher interest rates.

2.4.2 The majority of investments were placed in instant access bank deposit accounts/Money Market Funds (MMFs). MMFs offer greater diversification of counterparties and thus lower risk, as well instant access and relatively good returns.

2.5 Borrowing requirement and debt management

2.5.1 In terms of borrowing, long-term loans at the end of the year totalled £389.1 million and short-term loans (excluding interest accrued) £5.3 million (£392.5 million and £20.7 million 31 March 2018), an overall decrease of £18.8 million. There was no new long term borrowing in 2018-19. Appendix 2 details repayments of long-term loans during the year and short-term loans outstanding as at 31 March 2019.

2.5.2 Fixed rate loans account for 81.25% of total long-term debt (see also Appendix 5) giving the Council stability in its interest costs. The maturity profile for all long-term loans is shown in Appendix 3 and shows that no more than 9% of all debt is due to be repaid in any one year. This is good practice as it reduces the Council's exposure to a substantial borrowing requirement in any one particular future year, when interest rates might be at a relatively high level.

2.5.3 The primary source of the Council's borrowing is from the Government ie Public Works Loan Board (PWLB).

2.5.4 The table below sets out the estimated external borrowing requirement against actual requirements;

	2017-18 £m actual	2018-19 £m estimated	2018-19 £m actual
General Fund CFR - Non PFI	420.3	458.9	436.6
PFI	52.3	49.3	49.3
HRA CFR - Non PFI	182.8	175.3	175.3
PFI	54.9	52.9	52.9
Total CFR	710.3	736.4	714.1
Less: Other debt liabilities*	107.1	102.2	102.2
Borrowing CFR	603.2	634.2	611.9
Less: Deferred Liabilities	4.1	3.9	3.9
Less: Internal borrowing	185.9	136.6	213.6
PWLB Loans	278.6	286.6	275.3
LOBOs	76.6	76.6	76.6
Loan Stock (Fixed Rate)	7.0	7.0	7.0
Other LT Loans (Fixed Rate)	30.3	30.2	30.2
Temporary Borrowing	20.7	93.3	5.3
Total : External Borrowing	413.2	493.7	394.4
Investments	36.1	30.0	39.1

2.5.5 As can be seen from the table above the temporary borrowing requirement is far lower than expected due to a combination of an increase in internal balances (it was expected that these would reduce in year by £49.3m from £185.9m) and additional slippage in the capital plan of £30.8m.

2.5.6 The Local Capital Finance Company 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. It has yet to issue any loans but officers will continue to monitor developments of this potential new funding source.

2.5.7 In terms of debt rescheduling, the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity in 2018-19.

2.5.8 The average long term borrowing rate for 2018-19 for the Council's long-term loans outstanding was 4.62% (4.76% 2017-18).

2.6 Trends in treasury management activity

2.6.1 Appendix 4 shows the Council's borrowing and investment trends over the last 5 years. This highlights the current trend to re-pay long term debt at maturity and where required borrow over the short term.

2.7 Risk and Compliance Issues

- 2.7.1 The Council has complied with its prudential indicators for 2018-19, which were approved as part of the Treasury Management Strategy. Details can be found in Appendix 5. Indicators relating to affordability and prudence are highlighted in this appendix.
- 2.7.2 When the Council has received unexpected monies late in the day, officers have no alternative but to put the monies into the Barclays Business Reserve Account overnight. The account is maintained so that usually, daily balances are under £100k. The maximum daily amount deposited in this account overnight as a result of unexpected late payments was £1.100m. Whilst this is not an ideal situation, the Council is still within investment limits as per the Treasury Management Strategy which is set at £10m per counterparty.
- 2.7.3 In line with Council treasury management strategy, the Council has not placed any direct investments in companies as defined by the Carbon Underground 200.
- 2.7.4 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's consultants (Arlingclose), has proactively managed the debt and investments over the year.
- 2.7.5 The CIPFA Code of Practice requires that treasury management performance be subject to regular member scrutiny. The Corporate Governance and Audit Committee performs this role and members have received reports on strategy, half yearly monitoring and now the outturn for the year 2018-19. Training was provided to Members on the 16th November 2018.

Looking ahead – Treasury Management developments in 2019-20

2.8 Re-financing/re-payment of current Long Term Borrowing

- 2.8.1 As outlined within the Council approved Treasury Management Strategy 2019-20, the Council will continue to look to repay existing long term debt when the opportunity arises where it becomes beneficial for the Council to do so.
- 2.8.2 Within the next 12 months there may be Lenders Option Borrowers Option (LOBO) loans which present us with an option to convert or re-finance and these as detailed further below.
- 2.8.3 The Council currently has a £10.0m Range LOBO with Barclays. The Range LOBO has an annual rate of interest of 3.4% when the 6 month London Interbank Offered Rate (LIBOR) Rate is between 4%-6%, and a rate of 4.1% when it falls outside of this. Currently the LIBOR Rate is 0.83% and hasn't been as high as 4% since November 2008. The current interest rate is therefore 4.1%.

- 2.8.4 Barclays have approached the Council to convert the LOBO loan to a fixed rate interest loan. The rate is currently subject to discussion between both parties, and would remain until maturity of the loan on 15th January 2067. This could generate immediate savings per annum. By way of illustration, a mid-point fixed rate of 3.75% would equate to immediate £35k annual savings to the Council for the remainder of the loan.
- 2.8.5 On LOBO loans the Lender has the option to exercise their right to change the interest rate. At which point the borrower can then choose to accept the new interest rate or choose to re-pay at no additional cost.
- 2.8.6 It is intended that Council officers liaise with the Council's external Treasury Management advisors, Arlingclose, to review lender options, and proceed if they are considered to be in the longer term best interests of the Council.

2.9 Loan Funding Sources

- 2.9.1 The Council may be presented with additional sources of long-term funding at certain points in time, beyond those currently listed in the Council's current treasury management strategy. These may be at preferential rates of interest and therefore the Chief Financial Officer (s151 officer) will look to maximise the use of source funds when it is preferential to do so.
- 2.9.2 One such opportunity is with SALIX Finance Ltd. SALIX Finance Ltd 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.

2.10 Investment Opportunities

- 2.10.1 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
- 2.10.2 Average current Council cashflow balances remain consistent at about £45m, and officers consider that an investment of up to £10m will still enable sufficient remaining headroom to accommodate the £30m day-to-day cashflow requirement as noted in the Treasury Management Strategy.
- 2.10.3 In order to increase investment returns, alternative investment options were considered. There was member approval to add the Local

Authorities Pooled Investment Fund (LAPF) as an approved Council Investment in the 2019-20 Treasury Management Strategy approved as part of the budget on 13 February 2019.

- 2.10.4 The Local Authorities Property Fund was established in 1972 and is managed by CCLA Fund Managers. Any Local Authority in the United Kingdom can invest in the Fund and the minimum investment is £25k. As at December 2018 there are assets under management of £1,104m. The Fund aims to provide investors with a high level of income and long-term capital appreciation, and it is an actively managed, diversified portfolio of UK commercial property. It principally invests in UK assets, but may invest in other assets. There is an accompanying prospectus and factsheet appended to this report, for information.
- 2.10.5 Such funds tend to generate a higher rate of return. For example, 2017-18 returned a 4.2% dividend yield on the Local Authority Property Fund compared with the Council's average rate of return on investments of 0.67% in 2018-19.
- 2.10.6 Clearly there are increased risks associated with higher yield investment opportunities, and any potential investment would need to be considered very much as a much longer term investment strategy, pro-actively managed by CCLA, to manage those risks over time. Indeed 10 year returns for CCLA show an annualised total return of 8.7%.
- 2.10.7 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, advice has been sought from the Council's external treasury advisors, as well as detailed officer discussions with the LAPF's Fund Manager, CCLA. Approved Council budget plans factored in a potential investment of up to £10m part way through 2019-20, with an assumed net income yield of £150k in 2019-20, increasing to £300k from 2020-21 onwards.
- 2.10.8 It is intended that the Council will make an initial Investment in LAPF of £5m, with a view to consideration for a further investment tranche later in the year. Splitting the total investment in to two batches would potentially reduce the timing risk of the investment. It should also be noted that there is an 8% 'spread' on this particular investment. This is made up of a purchase charges of 6.5% and selling charges of 1.5%.
- 2.10.9 The nature of this type of investment is such that it has to be seen as a much longer term investment to mitigate against any short-term market volatility or risk. Any initial net yield gains would be offset to some extent by these transaction costs. There are also annual management charges that are payable to reflect the fact that the fund is actively managed. These costs are 0.65% and are deducted from dividend payments.

3. Implications for the Council

3.1 Working with People – no impact

3.2 Working with Partners – no impact

3.3 Place Based Working – no impact

3.4 Improving outcomes for children - no impact

3.5 Other (e.g. Legal/Financial or Human Resources) – Any changes in assumed borrowing and investment requirements, balances and interest rates will be reflected in revenue budget monitoring reports during the year.

4. Consultees and their opinions

None.

5. Next steps and timelines

Comments and feedback from CGAC will be incorporated into this report which will be subsequently considered at Cabinet in June and Council in July 2019 as part of the overall financial outturn and rollover report 2018-19.

6. Officer recommendations and reasons

CGAC are asked to consider and make any comments on the following recommendations before they are considered for Cabinet and Council approval;

6.1 note treasury management performance in 2018-19 as set out in this report;

6.2 agree officer proposals to review any LOBO loan re-financing options in conjunction with Arlingclose, and to proceed if considered beneficial to the Council;

6.3 note officer intention to undertake an investment in the Local Authorities Property Fund through 2019/20.

7. Cabinet portfolio holder's recommendations

To follow

8. Contact officer

James Anderson Senior Finance Manager

Rachel Firth Finance Manager

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.
Public Works Loan Board Website.

Treasury Management Strategy Report approved by Council on 14
February 2018.
Local Authorities Property Fund & Factsheet

10. Service Director responsible

Eamonn Croston

01484 221000

APPENDIX 1

Kirklees Council Investments 2018/19											
Counterparty	Credit Rating Mar 2019*	1 April 2018				30 September 2018			31 March 2019		
		£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment	£m	Interest Rate	Type of Investment	
Specified Investments											
Barclays	Bank	F1+/A1				0.8	0.05%	Instant Access			
Lloyds	Bank	F1+/A1				6.0	0.75%	32 Day Notice			
Santander	Bank	F1+/A1				7.0	0.85%	35 Day Notice	2.0	0.85%	35 Day Notice
Svenka Handelsbanken	Bank	F1+/AA						Instant Access			
Svenka Handelsbanken	Bank	F1+/AA				6.6	0.77%	35 Day Notice			
Aberdeen Standard	MMF**	AAAmmf	9.9	0.46%	Instant Access	9.9	0.67%	Instant Access	9.8	0.79%	Instant Access
Aviva	MMF**	Aaa-mf	10.0	0.42%	Instant Access	10.0	0.66%	Instant Access	10.0	0.65%	Instant Access
Deutsche	MMF**	AAAmmf	9.0	0.37%	Instant Access	0.9	0.64%	Instant Access			
Goldman Sachs	MMF**	AAAmmf	7.2	0.37%	Instant Access	9.9	0.64%	Instant Access	7.2	0.72%	Instant Access
Thurrock Council	Local Auth'y								5.0	0.94%	Local Authority
Suffolk County Council	Local Auth'y								5.0	0.95%	Local Authority
			36.1			51.1			39.0		
Sector analysis											
			£m	%age		£m	%age		£m	%age	
Bank						20.4	40%		2.0	5%	
Building Society											
MMF**			36.1	100%		30.7	60%		37.0	95%	
Local Authorities/Cent Govt											
			36.1	100%		51.1	100%		39.0	100%	
Country analysis											
			£m	%age		£m	%age		£m	%age	
UK						13.8	27%		2.0	5%	
Sweden						6.6	13%				
MMF**			36.1	100%		30.7	60%		37.0	95%	
			36.1	100%		51.1	100%		39.0	100%	

*Fitch short/long term ratings, except Aviva MMF (highest Moody rating). See next page for key. ** MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

Key – Fitch’s credit ratings:

		Long	Short	
Investment Grade	Extremely Strong	AAA	F1+	
		AA+		
	Very Strong	AA		
		AA-		
		A+		
	Strong	A		F1
		A-		
		BBB+		F2
	Adequate	BBB		
BBB-		F3		
Speculative Grade	Speculative	BB+	B	
		BB		
		BB-		
	Very Speculative	B+		
		B		
		B-		
	Vulnerable	CCC+		C
		CCC		
		CCC-		
		CC		
C				
Defaulting	D	D		

Appendix 2

Long-term loans repaid and short-term loans outstanding 31 March 2019

Long-term loans repaid during 2018/19

	Amount £000s	Rate %	Date repaid
Repayments on maturity			
PWLB (498254)	2,768	4.24	24 Dec 18
PWLB (498438)	4,612	4.10	17 Sep 18
Repayments on annuity loans			
PWLB (496956)*	337	4.58	01 Oct 18
PWLB (496956)*	345	4.58	29 Mar 19
Total	8,062		

* represents loan extended to Kirklees College, for which the College is making similar repayments to the Council

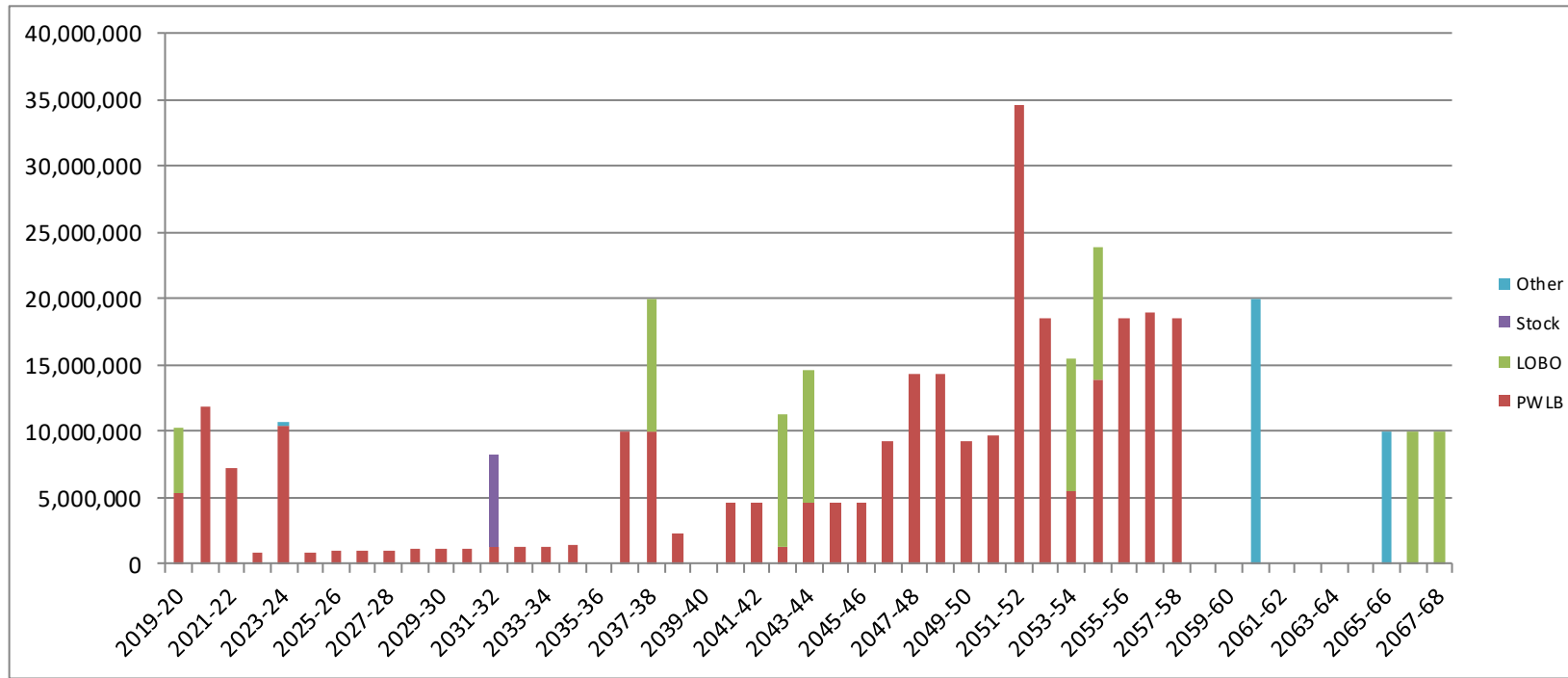
Short-term loans outstanding 31 March 2019

	Amount £000s	Rate %	Length (days)
Temporary borrowing from the Money Market			
London Borough of Newham	5,000	0.45	19
Gateshead Council	5,000	0.55	9
Local lenders/Trust Funds	1,714		
Long-term loans due to mature in the next twelve months	5,366		
Total*	17,080		

* excludes interest accrued

Kirklees Council Loan Maturity Profile (All Debt)

Appendix 3



Kirklees Council - Borrowing and Investment Trends

At 31 March	2019	2018	2017	2016	2015
Investments	39.0m	36.1m	31.3m	38.3m	38.7m
ST Borrowing (excl interest accrued)	5.3m	20.8m	37.7m	16.0m	21.1m
LT Borrowing	389.1m	392.4m	400.5m	408.4m	422.6m
Total Borrowing	394.4m	413.2m	438.2m	424.4m	443.7m
Deferred liabilities (non PFI)	3.9m	4.1m	4.1m	4.3m	4.4m
Net debt position	351.5m	373.0m	411.0m	390.4m	409.4m
Capital Financing Requirement (excl PFI)					
General Fund	436.6m	420.3m	412.8m	411.3m	422.2m
HRA	175.3m	182.8m	186.2m	192.4m	196.6m
Total CFR	611.9m	603.2m	599.0m	603.7m	618.8m
Balances "internally invested"	213.6m	185.9m	156.7m	175.0m	170.7m
Ave Kirklees' investment rate for financial year	0.7%	0.3%	0.4%	0.5%	0.4%
Ave Base rate (Bank of England)	0.7%	0.3%	0.3%	0.5%	0.5%
Ave LT Borrowing rate (1)	2.6%	2.5%	2.5%	3.2%	3.7%

(1) Based on average PWLB rate throughout the year on a 20 year loan repayable on maturity.

APPENDIX 5

Treasury Management Prudential Indicators

Interest Rate Exposures

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

	Limit Set 2018-19	Actual 2018-19
Interest at fixed rates as a percentage of net interest payments	60% - 100%	81%
Interest at variable rates as a percentage of net interest payments	0% - 40%	19%

The interest payments were within the limits set.

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.

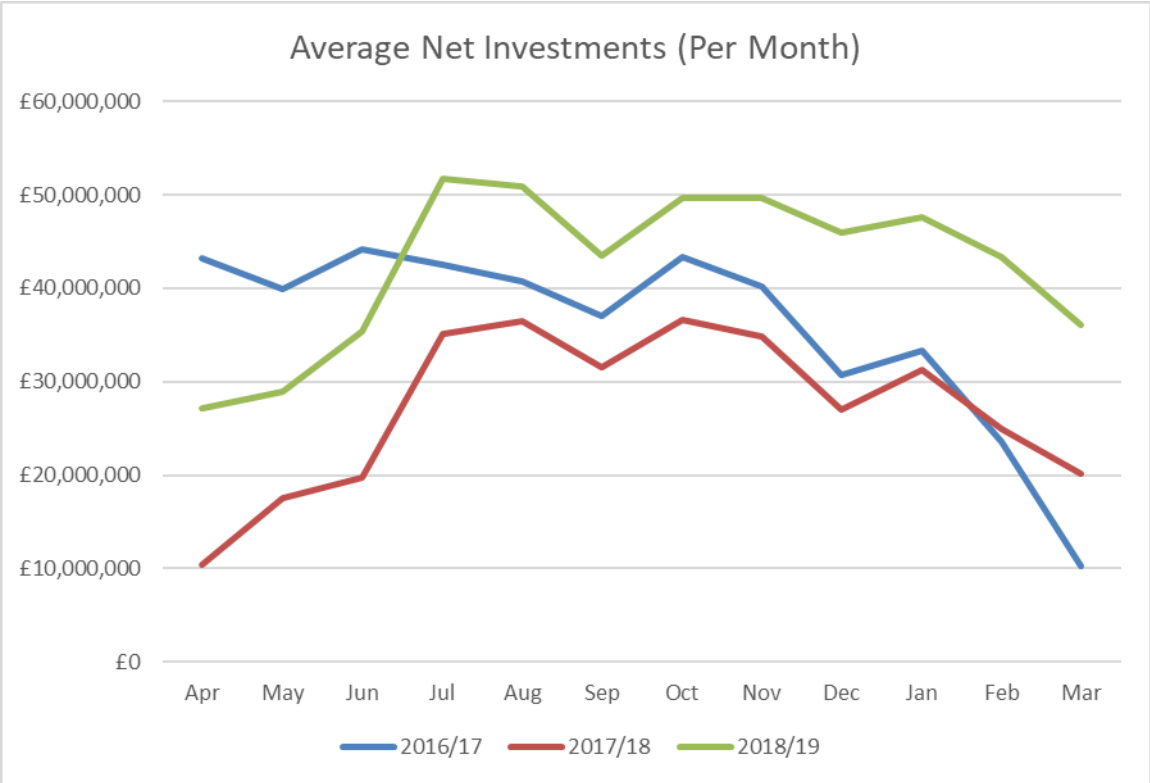
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2018-19	Actual Levels 2018-19
Under 12 months	0% - 20%	2%
12 months to 2 years	0% - 20%	4%
2 years to 5 years	0% - 60%	6%
5 years to 10 years	0% - 80%	1%
More than 10 years	20% - 100%	87%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

The Council has not invested any sums longer than 364 days.

APPENDIX 6



The Local Authorities' Property Fund

Fund Fact Sheet – 31 December 2018

Investment objective

The Fund aims to provide investors with a high level of income and long-term capital appreciation.

Investment policy

The Fund is an actively managed, diversified portfolio of UK commercial property. It will principally invest in UK commercial properties, but may invest in other assets.

Suitability

The Fund is suitable for the long-term funds of any local authority seeking exposure to UK commercial property.

Independent Governance

The trustee is the Local Authorities' Mutual Investment Trust (LAMIT) a body controlled by members and officers appointed by the Local Government Association, the Convention of Scottish Local Authorities, the Northern Ireland Local Government Officers' Superannuation Committee and investors in the Fund.

Who can invest?

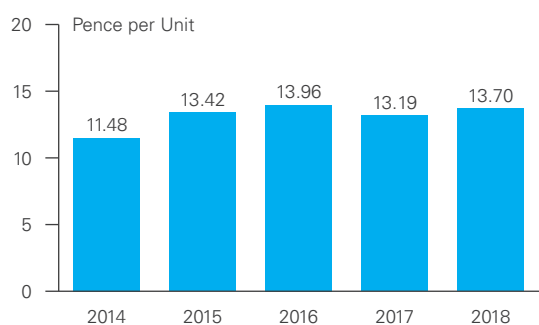
Any local authority in England, Wales, Scotland and Northern Ireland.

Income

Gross dividend yield	4.21%*
MSCI/AREF UK Other Balanced Quarterly Property Fund Index yield	3.52%
Official Bank Rate	0.75%

* Based upon the net asset value and historic gross annual dividend of 12.9794p. Distribution for the most recent quarter has been estimated.

Rolling 12 month distributions to 31st March:



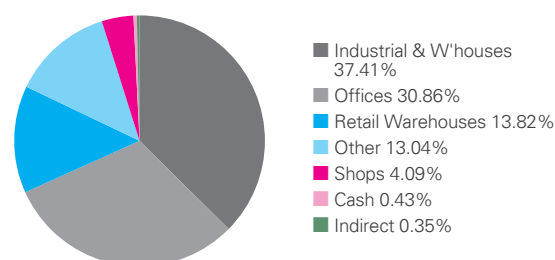
Fund update

The prime focus of our strategy is on asset selection and management. We try to identify assets which, through active management, can make a significant contribution to both capital and income returns. This is supported by an active approach to sub-sector weightings which are biased to reflect our view of long-term prospects. At present, this means a relatively high weighting to industrial and office assets and a low exposure to retail. Recent activity has resulted in an increase of holdings in the 'other' sector, a grouping which includes hotels and car showrooms.

Cash flows into the Fund continued with just over £36m received during the period. Three assets were acquired, the largest a warehouse in Northampton at a cost of around £19.4m. The other two buys, a Glasgow office and an industrial asset in Aberdeen, augmented existing holdings. They are attractive in their own right, but provide the potential for added value from development. Lease management activity continued at a high level, the key lettings were of the Blythswood Square office in Glasgow and at Kingsway in London. As a result of these changes, the void rate fell to around 7% from 8.9% at the end of September.

The Fund is not materially affected by the spate of store closures and CVA issuance in the retail sector. Similarly, exposure to standard retail units is low and there are no holdings in shopping centres.

Asset allocation at 31 December 2018



The Fund has credit facilities which, at quarter end, were not utilised.

Discrete year total return performance (net)

12 months to 31 December	2018	2017	2016	2015	2014
The Local Authorities' Property Fund	+7.60%	+9.68%	+2.12%	+14.09%	+19.50%
Benchmark	+7.43%	+10.58%	+3.66%	+12.97%	+17.34%

Annualised total return performance (net)

Performance to 31 December 2018	1 year	3 years	5 years
The Local Authorities' Property Fund	+7.60%	+6.42%	+10.44%
Benchmark	+7.43%	+7.18%	+10.30%

Benchmark – MSCI/AREF UK Other Balanced Quarterly Property Fund Index. Net performance shown after management fees and other expenses. Past performance is no guarantee of future returns. Source: CCLA

Top ten property holdings at 31 December 18 – total 34.97%

London, Kingsway	Leeds, Park Row
London, Beckton Retail Park	Bracknell, The Arena
London, Goodman's Yard	Coventry, Torrington Avenue
London, Stockley Park, Longwalk	Bristol, Gallagher Retail Park
Elstree, Centennial Park	Brighton, West Street

Key facts

Total fund size	£1099m
Current borrowing	£0m
Number of holdings	73

Income units

Offer (buying) price	329.35p (xd)
Net asset value	308.53p (xd)
Bid (selling) price	303.75p (xd)
Launch date	18 April 1972
Unit types	Income
Minimum initial investment	£25,000
Minimum subsequent investment	£10,000
Dealing day	Month end valuation day*
Sedol & ISIN numbers	0521664, GB0005216642
Dividend payment dates	End January, April, July & October
Annual management charge (taken 100% from income)	0.65%

* Instructions for the issue or redemption of units must be received by CCLA no later than 5pm on the business day prior to the Valuation Date. If the valuation day is a bank holiday, the dealing day will be the previous working day. Units are only realisable on each monthly dealing date and redemptions may not be readily realisable; a period of notice not exceeding six months may be imposed for the redemption of units.

Tax reclaims should be addressed to: Glynis Free, Specialist Repayment Team 7 South, Ty - Glas, Cardiff, CF14 8HR.
Telephone 03000 580618, 9.30am - 1pm.

Risk Warning

This document is a financial promotion and is issued for information purposes only. It does not constitute the provision of financial, investment or other professional advice. CCLA have not considered the suitability of this investment against your individual needs and risk tolerance. To ensure you understand whether our product is suitable, please read the Fund Factsheet document and the Scheme Particulars. We strongly recommend you seek independent professional advice prior to investing. Investors should consider the following risk factors identified as specific to the Fund before investing: Counterparty/Tenant/Credit Risk (financial institution/tenants may not pay), Market Risk (investment value affected by market conditions), Operational Risk (general operational risks), Expiry/Maturity Profile (timing of maturity of tenancies), Liquidity Risk (investment in non-readily realisable assets), Interest Rate risk (changes to interest rate affecting income), Concentration Risk (need for diversification and suitability of investment), Business Risk (possibility of lower than anticipated profits). Please see the Fund Scheme Particulars for further details.

Disclosure

Investment in the Fund is for Eligible Local Authorities only. Past performance is not an indicator of future performance. The value of investments and the income derived from them may fall as well as rise. Investors may not get back the amount originally invested and may lose money. Any forward-looking statements are based upon our current opinions, expectations and projections. We undertake no obligations to update or revise these. Actual results could differ materially from those anticipated. Investments in the Fund and the Fund itself are not covered by the Financial Services Compensation Scheme (FSCS). However, the Manager may pay fair compensation on eligible claims arising from its negligence or error in the management and administration of the Fund. The Fund is an Alternative Investment Fund and an Unregulated Collective Investment Scheme established under a Scheme approved by H M Treasury under Section 11 of the Trustee Investments Act 1961 and is subject to provisions of a Trust Deed dated 6 April 1972 and a supplemental Trust Deed dated 13 September 1978. The Fund operates as an open-ended Fund under Part IV of the schedule to the Financial Services and Markets Act 2000 (Exemption) Order 2001. CCLA Fund Managers Limited (registered in England No. 8735639 at the office below) is authorised and regulated by the Financial Conduct Authority and is the manager of the Local Authorities Property Fund. For information about how we obtain and use your personal data, please see our Privacy Notice at <https://www.ccla.co.uk/our-policies/data-protection-privacy-notice>.

The Local Authorities' Property Fund

Fund Profile – 31 December 2018

A unique, specialist Property Fund available only to Local Authority Investors

Price at 31.12.18

Income units
Gross dividend yield

Net asset value

308.53p (xd)
4.21%*

* Based upon the net asset value and historic gross annual dividend of 12.9794p. Distribution for the most recent quarter has been estimated.

Strong governance

The trustee is the Local Authorities' Mutual Investment Trust (LAMIT). LAMIT is controlled by members and officers appointed by the Local Government Association, the Convention of Scottish Local Authorities, the Northern Ireland Local Government Officers' Superannuation Committee and investors in the Fund to represent unitholders. As fully independent trustee, LAMIT approves the investment strategy and the risk profile of the portfolio and reviews performance.

Meeting your needs

Suitable for Local Authorities, the Fund aims to provide investors with a high level of income and long-term capital appreciation.

The Property Fund is designed to achieve long term capital growth and a rising income from investments in the UK commercial property sector.

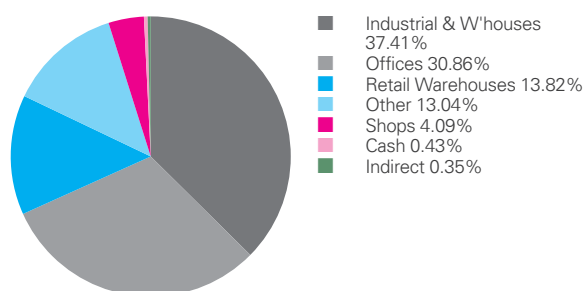
The portfolio is actively managed with a focus on asset selection. The intention is to boost returns by lease and tenant management and property improvement.

The Fund has a broad sector spread, with prudent diversification to keep risks under control.

Sector strategy

The portfolio favours industrial assets and well placed offices. The allocation to hotels has been increased. Traditional shop exposures are low, there are no holdings of shopping centres.

Asset allocation at 31 December 2018



The Fund has credit facilities which, at quarter end, were not utilised

Fund size: £1,099 million

Property portfolio details

Top 5 properties = 21.2 % of the portfolio

Top 5 tenants = 18.1% of rental income

Weighted unexpired lease term years 7.0 yrs

Void rate excluding developments in progress 3.9%

Void rate including developments in progress 6.6%

Asset allocation by region and category 31 December 2018



Fund Data and MSCI/AREF UK Other Balanced Quarterly Property Fund Index data as at 31 December 2018. Source: CCLA & MSCI/AREF

Top ten property holdings – total 34.97%

London, Kingsway
 London, Beckton Retail Park
 London, Goodman's Yard
 London, Stockley Park, Longwalk
 Elstree, Centennial Park

Leeds, Park row
 Bracknell, The Arena
 Coventry, Torrington Avenue
 Bristol, Gallagher Retail Park
 Brighton, West Street

Market update

The prime focus of our strategy is on asset selection and management. We try to identify assets which, through active management, can make a significant contribution to both capital and income returns. This is supported by an active approach to sub-sector weightings which are biased to reflect our view of long-term prospects. At present, this means a relatively high weighting to industrial and office assets and a low exposure to retail. Recent activity has resulted in an increase of holdings in the 'other' sector, a grouping which includes hotels and car showrooms.

Fund activity

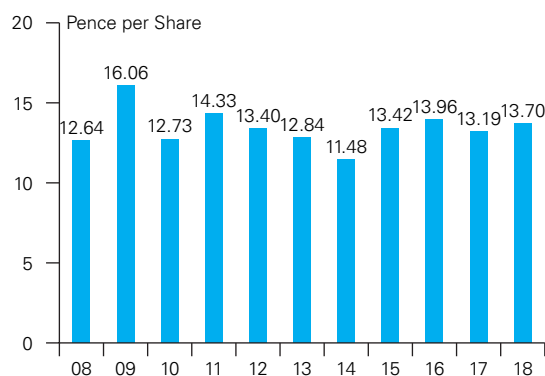
Cash flows into the Fund continued with just over £36m received during the period. Three assets were acquired, the largest a warehouse in Northampton at a cost of around £19.4m. The other two buys, a Glasgow office and an industrial asset in Aberdeen, augmented existing holdings. They are attractive in their own right, but provide the potential for added value from development. Lease management activity continued at a high level, the key lettings were of the Blythswood Square office in Glasgow and at Kingsway in London. As a result of these changes, the void rate fell to around 7% from 8.9% at the end of September. The Fund is not materially affected by the spate of store closures and CVA issuance in the retail sector. Similarly, exposure to standard retail units is low and there are no holdings in shopping centres.

Outlook

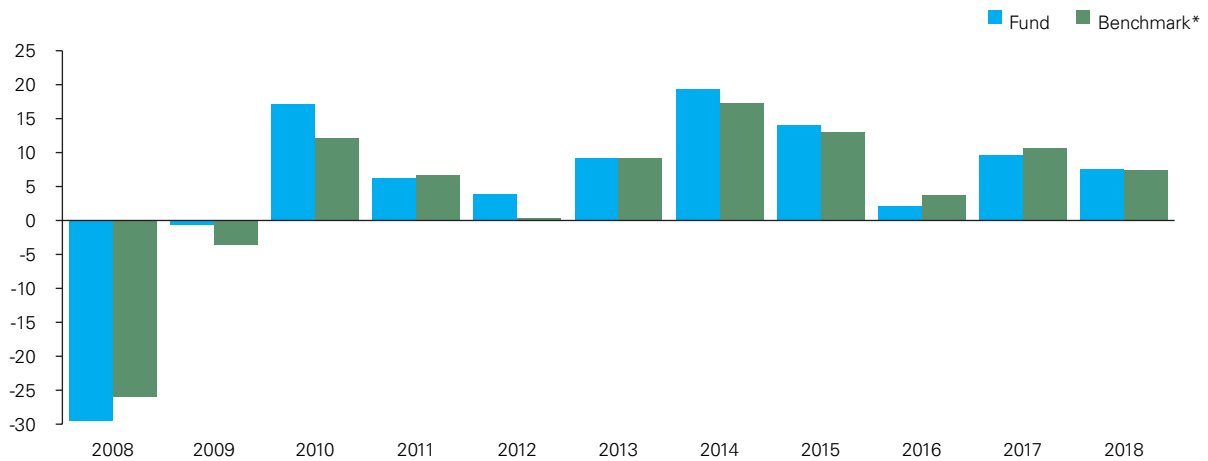
In the near term Brexit uncertainties will continue to depress transaction volumes. Underlying this, the sub-sector trends evident in 2018 are likely to continue; sources of secure income such as industrial assets and others, including hotels will remain in favour, conventional retail will stay under pressure. Overall capital values are expected to decline, but we expect total returns to stay positive reflecting the sector's high yield.

Dividend history of The Local Authorities' Property Fund

Years to 31 March



Calendar performance versus the benchmark (net)



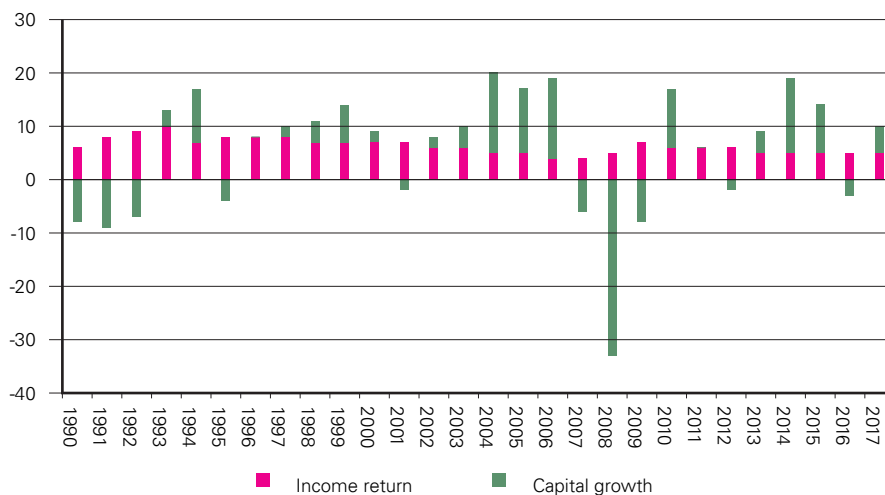
* The benchmark is the MSCI/AREF UK Other Balanced Quarterly Property Fund Index.

Performance shown after management fees and other expenses. Past performance is not a guide to future performance and future returns are not guaranteed.

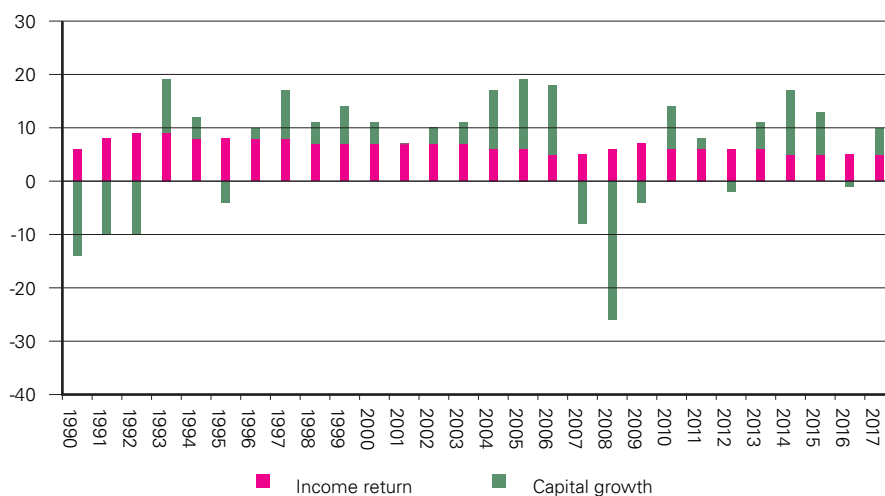
Source: CCLA & MSCI/AREF

Note: Fund calendar performance refers to total return whereas investment returns (shown below) splits the total return between income and capital. A small difference arises as a result of the compounding on the income and capital components.

The Local Authorities' Property Fund investment returns (after expenses)



MSCI/AREF UK Annual Property Digest returns (before expenses)



Source: CCLA & MSCI/AREF

Income from Property and the Fund has been consistent even in downturns, a reflection of its contractual basis.

Long-term performance

Total return performance (net) 12 months to 31 December

	2018	2017	2016	2015	2014
The Local Authorities' Property Fund	+7.60%	+9.68%	+2.12%	+14.09%	+19.50%
Benchmark	+7.43%	+10.58%	+3.66%	+12.97%	+17.34%

The benchmark is the MSCI/AREF UK Other Balanced Quarterly Property Fund Index.

Performance shown after management fees and other expenses. Past performance is not a guide to future performance and future returns are not guaranteed.

Source: CCLA & MSCI/AREF

Costs and charges

Our policy is always to keep costs and charges low - we believe that high costs and charges have a very damaging cumulative effect on investor returns. We negotiate to keep expenses low and monitor dealing costs closely. We have no entry or exit fees, the only income taken by the investment manager is the annual charge of 0.65%.

Key facts

Dealing day	Month end valuation day*
Minimum initial investment	£25,000
Minimum subsequent investment	£10,000
Dividend payment dates	End January, April, July & October
Annual management charge	0.65% (deducted from income)
Unit types available	Income
Sedol number	0521664
ISIN number	GB0005216642

Income payments are now made gross of tax.

Any outstanding historic tax reclaims should be addressed to:

Glynis Free
Specialist Repayment Team
7 South
Ty - Glas
Cardiff CF14 8HR
Telephone 03000 580618 9.30am - 1pm

* Instructions for the issue or redemption of units must be received by CCLA no later than 5pm on the business day prior to the Valuation Date. If the valuation day is a Bank Holiday the dealing day will be the previous working day. Units are only realisable on each monthly dealing date and redemptions may not be readily realisable; a period of notice not exceeding six months may be imposed for the redemption of units.

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Disclosures

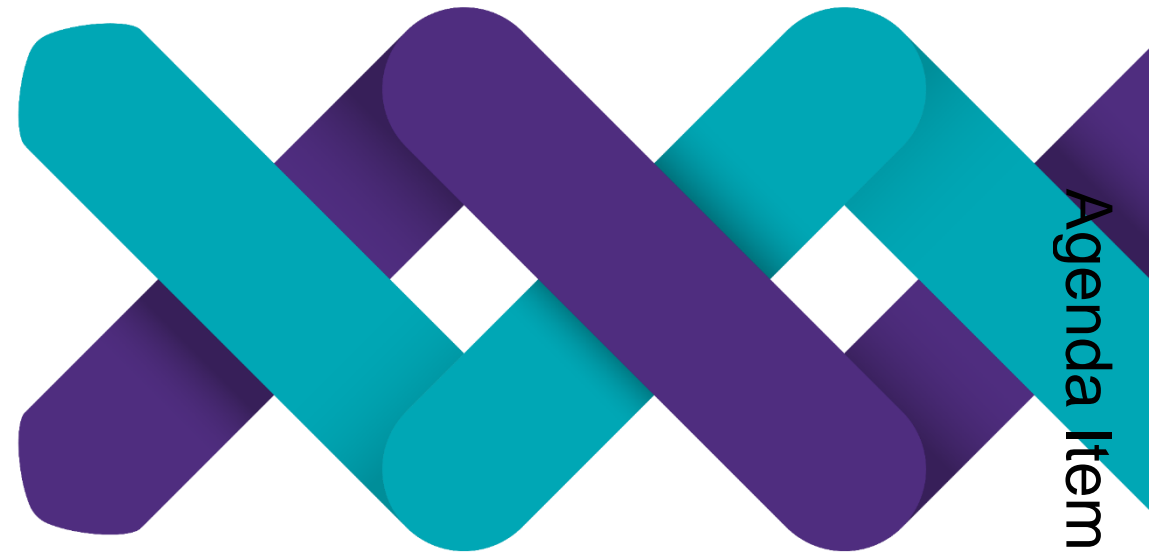
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Audit Progress Report and Sector Update

Kirklees Metropolitan Council
Year ending 31 March 2019

17 May 2019



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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 a summary of emerging national issues and developments that may be relevant to you as a local authority.

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.

PSAA Contract Monitoring

Kirklees Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Progress at 8 May 2019

Financial Statements Audit

We presented our Audit Plan to the Corporate Governance and Audit Committee at its meeting on 8 March 2019 and we are now planning for our detailed audit of the Council's financial statements.

We have completed our interim audit work which took place between January and March 2019.

Our interim audit work included::

- Understanding and review of the Council's control environment
- Understanding and documentation of the Council's financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The findings from our interim audit work is included on pages 6 to 8.

The statutory deadline for the issue of the 2018/19 opinion is 31 July 2019. We are discussing our plan and timetable with officers.

The final accounts audit is due to begin on the 31 May with findings reported to you in our Audit Findings Report. We will present our report at the July Corporate Governance and Audit Committee meeting and issue our audit opinion by the 31 July deadline.

Value for Money

The scope of our work is set out in the 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 guidance confirmed the overall criterion as: "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

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We identified two significant Value for Money risks:

- **Financial sustainability** – delivery of the 2018-19 budget and savings plan and achievement of Medium Term Financial Plan (MTFP)
- **Children's Services** – progress against Action Plan in response to OFSTED recommendations.

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

Other areas

Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2018/19 has not yet started. We will agree our overall project plan for completing this work with officers.

Meetings

We meet with senior officers (CEx and CFO) as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helps to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

We held a Yorkshire based 'Audit Committee Chairs' event in February and will shortly be sharing the presentation slides from the event with you.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Corporate Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	Outline plan - January 2019 Detailed Plan - March 2019	Complete
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.	April 2019	Complete Included in this report
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

Council responsibilities

In our Audit Plan presented to the Corporate Governance and Audit Committee in March 2019 we have communicated our expectations around the Council's responsibilities for timely production of the draft accounts supported by appropriate working papers. Should delays be experienced in the provision of these requirements or should additional work be required on our part due to complex technical issues, new arrangements and delays in response to queries additional costs will be incurred.

Any additional fees are subject to approval by PSAA.

Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • organisational structure • participation by those charged with governance • objectives and strategy • control environment • risk assessment processes • monitoring of controls • information and communication • financial reporting communications process 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>
Review of information technology controls	<p>Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>A number of weaknesses were identified within the IT environment, including the following significant risk</p> <ul style="list-style-type: none"> • SAP user rights – privileged access rights are not appropriate, with 15 'superusers' identified as being granted powerful permissions that allows users to create other users and assign profiles to them and allows users access to all SAP functionality and the ability to bypass SAP Authorisations. 	<p>Our review confirmed your organisational controls are effective overall but there are some weaknesses within the IT environment.</p> <p>These weaknesses are consistent with those reported by your predecessor auditors.</p> <p>An action plan is being agreed and is attached on page 8-10.</p> <p>In view of these issues we are not intending to place reliance on automated controls in our audit testing.</p>

Results of Interim Audit Work (continued)

	Work performed	Conclusions and recommendations
Walkthrough testing	<p>We carry out walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements including: PPE, Net Pension Liability and Operating Expenditure.</p> <p>To date we have carried out walkthrough testing on the following significant operating expenditure systems and subsystems:</p> <ul style="list-style-type: none"> • Accounts payable system • Schools subsystem • Domiciliary Care subsystem • Residential care subsystem <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We will select a sample for testing 'unusual' journal entries as part of our final accounts audit visit.</p>	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p>
Early Substantive testing	<p>We have carried out substantive testing in the following areas:</p> <ul style="list-style-type: none"> • Payroll testing - covering 12 months of 2018/19 • Operational Expenditure testing for months 1-11 of 2018/19 • Existence and Rights and Obligations testing for <ul style="list-style-type: none"> - PPE (including Housing) - Investment Properties - Heritage Assets 	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p>

Action Plan – IT General Controls

	Issue and Risk	Recommendation and Management Response
1	<p>● SAP User access rights</p> <p>The users that have been granted privileged access rights are not appropriate. As an example, 15 users are granted a powerful permission that allows users to create other users and assign profiles to them and allows users access to all SAP functionality. The users are The BASIS support team and 6 Generic accounts which by their nature do not have traceability as they are not allocated to individuals.</p> <p>There are other transactions which allow users to perform actions which bypass the SAP authorisation concept and allow unauthorised access.</p> <p>Access to the privileged transactions allows users full access to SAP functionality, which could give virtually full system rights, bypassing the SAP Authorisation concept.</p>	<p>Recommendation</p> <ul style="list-style-type: none"> • Management should ensure where the support team require access to the system, this access is monitored and granted appropriately. • Generic accounts used by third party users should be locked and access granted on an “as needed basis”. • Review of all privileged accesses should be undertaken and assigned only to users with a business need or removed. Since the audit a review has been carried out and is ongoing to identify users who require privileged access. <p>Management Response</p> <p>The SAP_ALL and SAP_NEW profiles have been removed from all dialogue accounts.</p> <p>Generic accounts used by third parties have been locked and will be unlocked when suppliers request access. All activity for those accounts will be logged and monitored.</p> <p>A review of users with privileged access is taking place. Access to the high risk transactions listed will be removed.</p>
2	<p>● Firefighter ID's</p> <p>The Council does not currently utilise firefighter ID's, to assist in the provision of support in the SAP environments. A Firefighter ID is a temporary user ID that grants the user exception-based, yet regulated access to perform tasks in an emergency or extraordinary situation. The 'Versa' firefighter application tracks, monitors and logs of all activity each Superuser performs under the privileged user ID.</p> <p>The current arrangement of not using temporary firefighter IDs creates a risk that the mode of change may be used inappropriately potentially leading to program instability or unauthorised changes to data.</p>	<p>Recommendation</p> <p>Management should adopting the use of Firefighter ID's in the various SAP environments.</p> <p>Management Response</p> <p>The concept of Firefighter IDs and roles, along with Versa, is part of the SAP Governance, Risk and Compliance (GRC) module which is not implemented in Kirklees Council.</p> <p>However we acknowledge that the concept of using restricted accounts with a high level of access for critical support issues is good practice. The BASIS team will be assigned elevated access accounts to be used on an exception basis when required. The activities of these accounts will be logged and monitored.</p>

	Issue and Risk	Recommendation and Management Response
3	<p>● IT developers have access rights to production client</p> <p>There are 7 users who can make changes to customised objects directly in the production environment and 10 users who have access to USR02 and DEVACCESS.</p> <p><i>Developers with access to the production environment are able to make changes directly in the production environment, bypassing the change management process and with the absence of user activity logging, changes made may go undetected.</i></p>	<p>Recommendation</p> <p>The change management process include restricting access to developers who can make changes directly in the production environment. This in conjunction with using access logging would prevent any unauthorised changes being implemented without the correct approvals</p> <p>Management Response</p> <p>Access to make changes directly in production will be removed from all staff. All users involved in change activities will have activity logged and monitored.</p>
4	<p>● Logging of user activities using SCC4 has not been turned on</p> <p>The setting of 'rsauenable' has not been turned on in the SAP master settings, this is the security log which enables the following activities to be recorded.</p> <ul style="list-style-type: none"> • Successful and unsuccessful RFC logon attempts • Successful and unsuccessful dialog logon attempts • RFC calls to function modules • Changes to user master records • Successful and unsuccessful transaction starts • Changes to the audit configuration <p>Where the SAP support team are allocated, as 'standard', SAP_ALL, the activities are not monitored and trackable.</p> <p><i>Where activities are undertaken without the ability to identify who has performed them, what they have done and why they were processed, fraudulent or unauthorised transactions could be made within the system.</i></p>	<p>Recommendation</p> <p>The SCC4 logs should be turned on and regular formal reviews of the logs should be undertaken by a suitably qualified and experienced person. It is understood that since the audit has been performed, management has turned the logging function on for this control.</p> <p>Management Response</p> <p>SCC4 is the transaction used to manage clients within a SAP system and is not related to security logs.</p> <p>SAP security logs are configured in SM19 and analysed in SM20. The parameter "rsau/enable" has been set, and security audit logging has been enabled in SM19 for all users.</p> <p>A monitoring strategy for SAP users with elevated access will be developed and implemented.</p>
5	<p>Idle Login Sessions within Northgate</p> <p>Login sessions within Northgate have an automated logout which disconnects after a period of 3 hours of inactivity.</p> <p><i>a) Misuse of unattended login sessions by other valid users of the system, leading to loss of accountability of actions performed.</i></p> <p><i>b) Misuse of unattended login sessions by unauthorized personnel, leading to unauthorized data disclosure or data tampering</i></p>	<p>Recommendation</p> <p>Idle login sessions within Northgate should automatically terminate after a predefined, risk-based period of inactivity has elapsed (e.g., 15 minutes).</p> <p>Management Response</p> <p>Recommendation to Customer & Exchequer Senior Management Team to reduce Idle Login Sessions within Northgate from 3 hours. Once agreed setting will be updated on the Server by Technical Infrastructure.</p>

	Issue and Risk	Recommendation and Management Response
6	<p>● Automated Notifications of Leaver and Mover Activity</p> <p>Security administrators of SAP, Northgate and Active Directory were not being provided automated, proactive notifications of anticipated HR mover and leaver activity, nor were they being provided automated per-occurrence notifications of unanticipated HR mover and leaver activity. It is understood that the introduction of AD Manager which was undergoing UAT testing at the time of the review should be implemented shortly.</p> <p>a) Access to information resources and system functionality may not be restricted on the basis of legitimate business need</p> <p>b) Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls</p> <p>c) Terminated employees may continue to access information assets through enabled, no-longer-needed user accounts</p> <p>d) Revocation of access rights may not be performed accurately, comprehensively, or on a timely basis</p>	<p>Recommendation</p> <p>Security administrators of Northgate and Active Directory should be provided with:</p> <p>(a) timely, proactive notifications from HR of leaver and mover activity for anticipated activity; and</p> <p>(b) timely, per-occurrence notifications for unanticipated mover and leaver activity.</p> <p>Security administrators of Northgate and Active Directory should then use these notifications to either:</p> <p>(a) end-date user accounts associated with anticipated leavers or</p> <p>(b) immediately disable user accounts associated with unanticipated leavers. These security administrators should then use these notifications amend and/or remove logical access belonging to movers and leavers.</p> <p>Management Response</p> <p>AD Manager has been running approximately behind schedule. The process for the disabling the AD accounts has been set up based upon the current SAP report and prior to 'go live' for AD manager the process is manual and monthly.</p>
7	<p>● Reviews of Information Security Logs Created by Northgate and Active Directory</p> <p>Logs of information security activity within Northgate and Active Directory were not being formally, proactively, and routinely reviewed.</p> <p>Without formal, proactive, and routine reviews of security event logs, inappropriate and anomalous security activity (e.g., repeated invalid login attempts, activity violating information security policies) may not identified and addressed in a timely manner.</p>	<p>Recommendation</p> <p>Logs of information security events (i.e., login activity, unauthorized access attempts, access provisioning activity) created by these systems should be proactively, formally reviewed for the purpose of detecting inappropriate or anomalous activity. These reviews should ideally be performed by one or more knowledgeable individuals who are independent of the day-to-day use or administration of these systems.</p> <p>Management Response</p> <p>Post Year end processing on Northgate for Council Tax, Business Rates and Benefits we will work with Northgate to identify opportunities to audit unauthorised access / activity. There are additional plans in the Service to undertake a full review of user access levels.</p>

●	Significant Deficiency - risk of significant misstatement
●	Deficiency - risk of inconsequential misstatement

Sector Update

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 by clicking on the logos below:

Public Sector

Local
government

Public Sector Audit Appointments – Report on the results of auditors’ work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors’ work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors’ local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

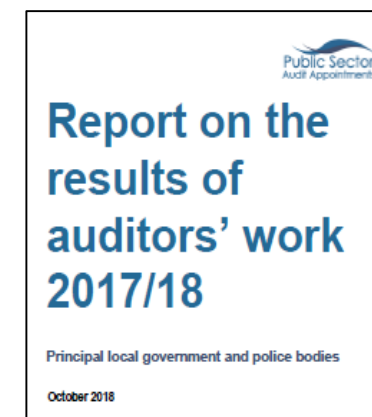
The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies’ financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>



National Audit Office – Local auditor reporting in England 2018

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the Comptroller & Auditor General (C&AG) took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors.

Given increasing financial and demand pressures on local bodies, they need strong arrangements to manage finances and secure value for money. External auditors have a key role in determining whether these arrangements are strong enough. The fact that only three of the bodies (5%) the NAO contacted in connection with this study were able to confirm that they had fully implemented their plans to address the weaknesses reported suggests that while auditors are increasingly raising red flags, some of these are met with inadequate or complacent responses.

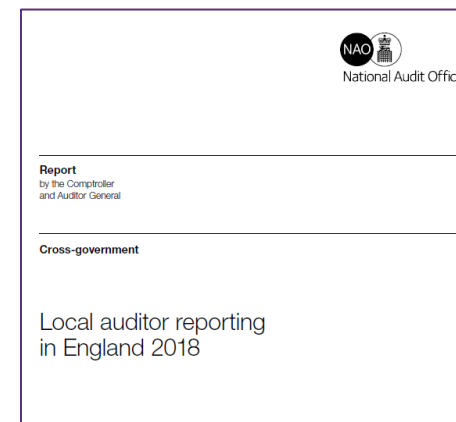
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 17 December 2018, auditors have yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18.

The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high. This is a risk to public money and undermines confidence in how well local services are managed. Local bodies need to demonstrate to the wider public that they are managing their organisations effectively, and take local auditor reports seriously. Those charged with governance need to hold their executives to account for taking prompt and effective action. Local public bodies need to do more to strengthen their arrangements and improve their performance.

Local auditors need to exercise the full range of their additional reporting powers, where this is the most effective way of highlighting concerns, especially where they consider that local bodies are not taking sufficient action. Departments need to continue monitoring the level and nature of non-standard reporting, and formalise their processes where informal arrangements are in place. The current situation is serious, with trend lines pointing downwards.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>



National Audit Office – Local authority governance

The report examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

Local government has faced considerable funding and demand challenges since 2010-11. This raises questions as to whether the local government governance system remains effective. As demonstrated by Northamptonshire County Council, poor governance can make the difference between coping and not coping with financial and service pressures. The Department (Ministry of Housing, Communities and Local Government) places great weight on local arrangements in relation to value for money and financial sustainability, with limited engagement expected from government. For this to be effective, the Department needs to know that the governance arrangements that support local decision-making function as intended. In order to mitigate the growing risks to value for money in the sector the Department needs to improve its system-wide oversight, be more transparent in its engagement with the sector, and adopt a stronger leadership role across the governance network

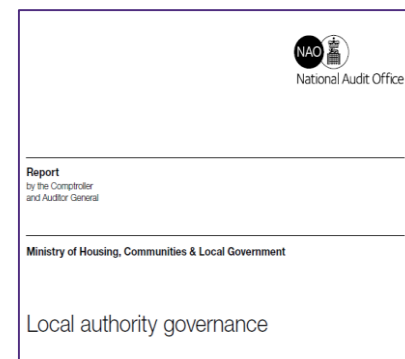
Not only are the risks from poor governance greater in the current context as the stakes are higher, but the process of governance itself is more challenging and complex. Governance arrangements have to be effective in a riskier, more time-pressured and less well-resourced context. For instance, authorities need to:

- maintain tight budgetary control and scrutiny to ensure overall financial sustainability at a time when potentially contentious savings decisions have to be taken and resources for corporate support are more limited; and
- ensure that they have robust risk management arrangements in place when making commercial investments to generate new income, and that oversight and accountability is clear when entering into shared service or outsourced arrangements in order to deliver savings.

Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures. Local authorities have seen a real-terms reduction in spending power (government grant and council tax) of 28.6% between 2010-11 and 2017-18. Demand in key service areas has also increased, including a 15.1% increase in the number of looked after children from 2010-11 to 2017-18. These pressures create risks to authorities' core objectives of remaining financially sustainable and meeting statutory service obligations. Furthermore, to mitigate these fundamental risks, many authorities have pursued strategies such as large-scale transformations or commercial investments that in themselves carry a risk of failure or under-performance.

The report is available on the NAO website:

<https://www.nao.org.uk/report/local-authority-governance-2/>



National Audit Office – Planning for new homes

The National Audit Office (NAO) has recently published a report on *Planning for new homes*. This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017)*. The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

The report concludes that the Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

The report is available on the NAO website:

<https://www.nao.org.uk/report/planning-for-new-homes/#>



National Audit Office – Pressures on children’s social care

The Local authorities in England have statutory responsibility for protecting the welfare of children and delivering children’s social care. In extreme cases they may use their statutory powers to place children in need on protection plans or even take them into care. Local authorities are also responsible for delivering non-statutory services for all children and young people, such as children’s centres. The Department for Education (the Department) provides statutory guidance on delivering these functions. It also has overall policy responsibility for children’s services, and has the strategic vision that all vulnerable children, no matter where they live, should have access to high-quality support by 2022.

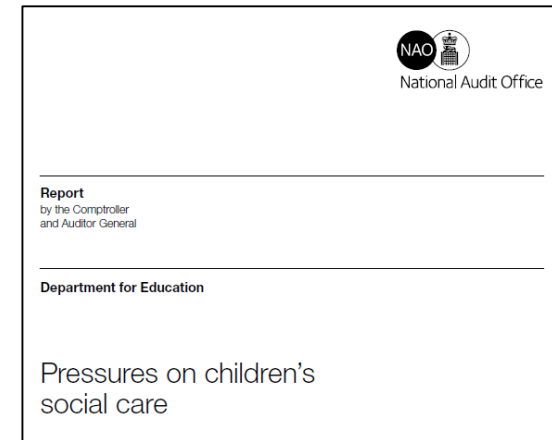
The report sets out recent trends in pressures on children’s social care demand and activity and the response of both national and local government to these pressures. It also sets out analysis the NAO conducted about what is causing variations in children’s social care demand and activity between different local authorities. The report covers:

- the pressures on children’s social care;
- the response of national and local government to increasing demand for children’s social care; and
- NAO analysis of what is causing variations in demand for children’s social care between local authorities.

The report notes that, while the Department has put in place a programme of reform, it still does not fully understand what is driving demand for children’s social care or why there is such wide variation between local authorities in their children’s social care activity and costs. It has not yet done the work to tie together available sources of information and therefore lacks a well-informed pathway to achieve its goal. While the Department has recognised the need for this analysis, it will not complete the work until summer 2019. Even if its analysis is completed successfully it will be a tall order for the Department to achieve its goal within three years.

The report is available on the NAO website:

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a “suite of indicators” following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector’s views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the “unprecedented level of interest” in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more “forward-looking” assessment and raised fears over the possibility of “naming and shaming” councils.

CIPFA chief executive Rob Whiteman said with local government facing “unprecedented financial challenges” and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

“Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions,” he said.

“The tool will sit alongside CIPFA’s planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances.”

CIPFA is now planning to introduce a “reserves depletion time” category as one of the indicators. This shows the length of time a council’s reserves will last if they deplete their reserves at the same rate as over the past three years.

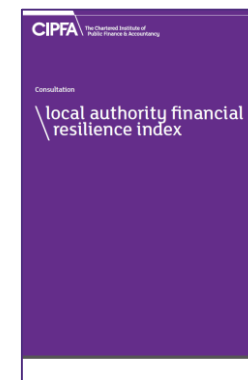
The consultation response document said this new category showed that “generally most councils have either not depleted their reserves or their depletion has been low”.

“The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories,” it said.

It also highlighted the broad support from the sector for the creation of the index. “There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern,” it said.

“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



CIPFA – Social Care risk tool

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Directors of Adult Social Services' (ADASS) have updated the Social Care Risk Tool; an advisory risk assessment tool for discretionary use by councils with adult social care responsibility.

The tool's objective is to help authorities assess whether unsustainable financial pressures might be faced by the adult social services department. It seeks to do this by assessing the extent to which various risk factors apply. This is the third version of the risk tool and it has been expanded to include new risks that have emerged since the previous version. In addition, a number of risks have been revised to make them clearer.

The risk assessment adopts a survey format and covers the following areas:

- savings;
- local pressures; and
- culture and relationships.

Each of the areas above includes a series of questions (or indicators), and authorities are required to assess whether the indicators are strongly present (score of 5); only present to some extent (scores 2 to 4); or not at all (score of 1). The total score helps to give an indication of where the authority lies. The maximum score is 195 (there are 39 questions altogether) which represents the highest risk possible. Some of the metrics (particularly those relating to unit costs) are more illustrative than prescriptive and local authorities may wish to adjust these to reflect their local circumstances.

To download the tool:

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>



Links

Grant Thornton

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

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

National Audit Office

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

<https://www.nao.org.uk/report/local-authority-governance-2/>

<https://www.nao.org.uk/report/planning-for-new-homes/#>

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>

Ministry of Housing, Communities and Local Government

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>

Public Sector Audit Appointments

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

CIPFA

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>

Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19



Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

Our relationship with our clients—why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQR

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council





Grant Thornton

Our ref: LA/RB

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24 April 2019

Dear Jacqui

Planned audit fee for 2019/20

The Local Audit and Accountability Act 2014 (the Act) provides the framework for local public audit. Public Sector Audit Appointments Ltd (PSAA) has been specified as an appointing person under the Act and the Local Authority (Appointing Person) Regulations 2015 and had the power to make auditor appointments for audits of opted-in local government bodies from 2018/19.

For opted-in bodies PSAA's responsibilities also include setting fees and monitoring the quality of auditors' work. Further information on PSAA and its responsibilities are available on the [PSAA website](#).

All grant work, including housing benefit certification, falls outside the PSAA contract, as PSAA no longer has the power to make appointments for assurance on grant claims and returns. Any assurance engagements will therefore be subject to separate engagements agreed between the grant-paying body, the Council and ourselves and separate fees agreed with the Council.

Scale fee

PSAA published the 2019/20 scale fees for opted-in bodies at the end of March 2019, following a consultation process. Individual scale fees have been maintained at the same level as in 2018/19, unless there were specific circumstances which required otherwise. Further details are set out on the [PSAA website](#). The Council's scale fee for 2019/20 has been set by PSAA at £122,221 which is the same as in 2018/19.

PSAA prescribes that 'scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes'. As we previously indicated we are currently considering a small increase in the scale fee for those public interest entities, including Kirkless Council, where we are required to issue a longer form audit report.

The audit planning process for 2019/20, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary as our work progresses.

Scope of the audit fee

There are no changes to the overall work programme for audits of local government audited bodies for 2019/20. Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory Code of Audit Practice and guidance for auditors. Audits of the accounts for 2019/20 will be undertaken under this Code. Further information on the NAO Code and guidance is available on the [NAO website](#).

The scale fee covers:

- our audit of your financial statements;
- our work to reach a conclusion on the economy, efficiency and effectiveness in your use of resources (the value for money conclusion); and
- our work on your whole of government accounts return (if applicable).

PSAA will agree fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, as a variation to the scale fee.

Value for Money conclusion

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its latest guidance for auditors on value for money work in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

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.

Billing schedule

Fees will be billed as follows:

Main Audit fee	£
September 2019	30,555
December 2019	30,555
March 2020	30,555
June 2020	30,556
Total	122,221

Outline audit timetable

We will undertake our audit planning and interim audit procedures in December 2019 and January 2020. Upon completion of this phase of our work we will issue a detailed audit plan setting out our findings and details of our audit approach. Our final accounts audit and work on the VfM conclusion will be completed between January and July 2020 and work on the whole of government accounts return in June and July.

Phase of work	Timing	Outputs	Comments
Audit planning and interim audit	December 2019 and January 2020	Audit plan	The plan summarises the findings of our audit planning and our approach to the audit of

the Council's accounts and VfM.

Final accounts audit	June to July 2020	Audit Findings (Report to those charged with governance)	This report sets out the findings of our accounts audit and VfM work for the consideration of those charged with governance.
VfM conclusion	January to July 2020	Audit Findings (Report to those charged with governance)	As above
Whole of government accounts	June and July 2020	Opinion on the WGA return	This work will be completed alongside the accounts audit.
Annual audit letter	August 2020	Annual audit letter to the Council	The letter will summarise the findings of all aspects of our work.

Our team

The key members of the audit team for 2019/20 are:

	Name	Phone Number	E-mail
Engagement Lead	Robin Baker	0161 214 6399	robin.j.baker@uk.gt.com
Engagement Manager	Marianne Dixon	0113 200 2699	marianne.dixon@uk.gt.com
In Charge Auditor	Andrew McNeil	0161 234 6366	Andrew.mcneil@uk.gt.com

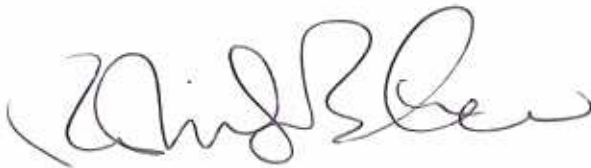
Additional work

The scale fee excludes any work requested by the Council that we may agree to undertake outside of our Code audit. Each additional piece of work will be separately agreed, and a detailed project specification and fee agreed with the Council.

Quality assurance

We are committed to providing you with a high quality service. If you are in any way dissatisfied or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact Sarah Howard, our Public Sector Assurance regional lead partner, via sarah.howard@uk.gt.com.

Yours sincerely



Robin Baker
Director
Grant Thornton UK LLP

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Name of meeting: CORPORATE GOVERNANCE & AUDIT COMMITTEE

Date: 17th May 2019

Title of report: ANNUAL REPORT OF THE CORPORATE GOVERNANCE & AUDIT COMMITTEE MAY 2018- MAY 2019

Purpose of report; To provide information about the work of the Committee in 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?	Julie Muscroft, Director of Legal , Governance & Commissioning 8 May 2019
Cabinet member portfolio	not applicable

Electoral wards affected: All

Ward councillors consulted: None

Public or private: Public

Have you considered GDPR? Yes

1. Summary

- 1.1 Attached is the Draft Annual Report of the Corporate Governance & Audit Committee. It is the first report from the Committee, but it is thought useful as a reminder to the organisation of the role of this committee is providing assurance about its governance, and financial and business controls..
- 1.2 The report would normally be signed off by the Chair, but the role holder in 2018/19 was not re-elected in May 2019, so the recommendation is that the report is signed off by the three members who have sat and continue in their committee role.

2. **Information required to take a decision**
 - 2.1 The detail is contained within the draft report attached.
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 the committees 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 delivering sound governance and control.
4. **Consultees and their opinions**
 - 4.1 There are no consultees to this report, although members of the committee may wish to make observations and comments in relation to improvement of the draft report.
5. **Next steps and timelines**
 - 5.1 To consider if any additional / amendments to the text are required.
6. **Officer recommendations and reasons**
 - 6.1 Members are asked to make any additional / amendments to the text are required.
 - 6.2 Members approve the annual report.
7. **Cabinet portfolio holder's recommendations**

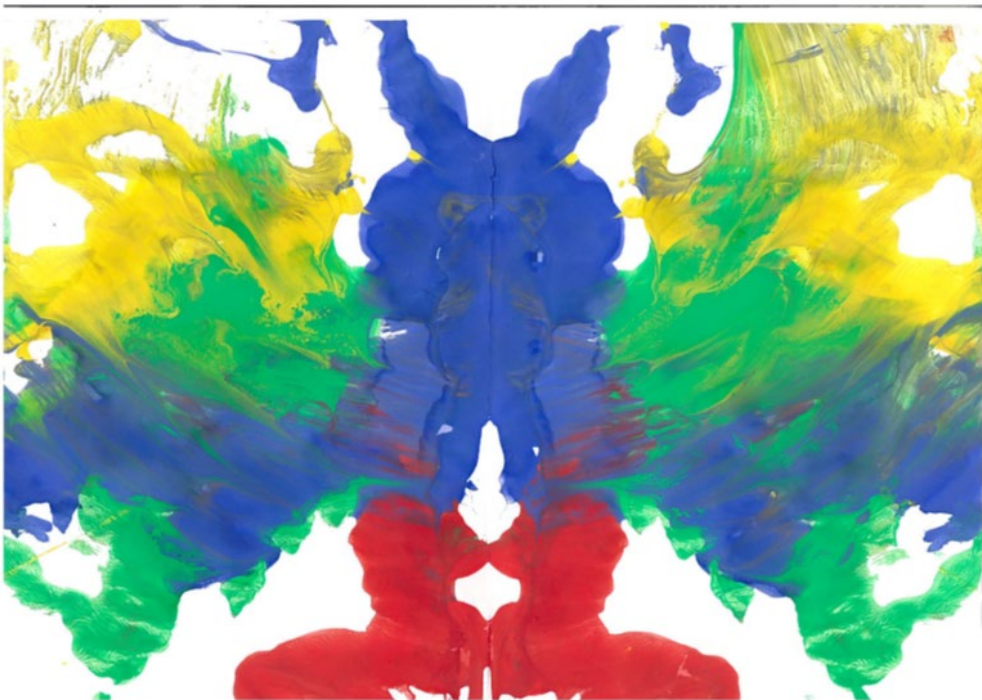
Not applicable
8. **Contact officer**

Martin Dearnley, Head of Risk & Internal Audit (01484 221133 x73672)
9. **Background Papers and History of Decisions**

All papers and minutes of the committee.
10. **Service Director responsible**

Not applicable

**KIRKLEES COUNCIL
CORPORATE GOVERNANCE & AUDIT
COMMITTEE
ANNUAL REPORT
2018/19**



Introduction

1. This is the first annual report of the Council's Corporate Governance & Audit Committee.
2. This report looks to raise awareness of what the Corporate Governance & Audit Committee does and its important role in ensuring sound governance, assurance and internal control within the organisation. It sets out the key roles, tasks it has undertaken this year and some of the things it will do in 2019/20.
3. Over the last few years there have been changes to the role of the Committee, as it has looked at a wider range of cross organisation assurance, and monitored the steps in place to improve and carry out the plans.
4. The Committee looks to provide constructive challenge and sits alongside and compliments the role of Scrutiny, with greater emphasis on governance control, rather than policy initiatives.

Role of the Committee

5. The Corporate Governance & Audit Committee has the following key responsibilities.
To be responsible for advising and reviewing in relation to the;
 - (a) Constitution, including Financial Procedure Rules and Contract Procedure Rules, and governance operating procedures, such as Planning protocols.
 - (b) Portfolios of the Cabinet and the terms of reference and delegations to committees and formally appointed bodies and officers
 - (c) Adoption, operation and changes to the Members' Allowances Scheme
 - (d) Council's arrangement relating to financial and management accounting and information
 - (e) Reviewing and challenging all treasury management activities.
 - (f) Council's arrangements relating to the external auditor including the receipt of reports, and gaining the necessary assurance regarding governance prior to the approval of the council's accounts the approval of the statement of accounts and any material amendments of the accounts recommended by the auditors
 - (g) Council's arrangements relating to internal audit including the Annual Audit Plan, the Annual Internal Audit report, and monitoring and reviewing the performance of internal audit.
 - (h) Council's Corporate Governance arrangements, internal control and risk management) and including to review and approve the annual statement of Corporate Governance.
 - (i) Council's Code of Corporate Governance, and the annual Statement of Corporate Governance.
 - (j) Designations of the Head of Paid Service, the Monitoring Officer and all statutory "proper officers".
 - (k) Appointments of individuals to outside bodies and revocation of such appointments.

- (l) Payments or other benefits in cases of maladministration as required and make recommendations arising from any review of a report of the Local Government and Social Care Ombudsman.
- (m) Terms of reference for and conduct of a community governance review, and making recommendations to Council
- (n) Monitoring compliance with the Council's Regulation of Investigatory Powers Act (RIPA) policy, and
- (o) Some functions in relation to elections and parishes charities and charitable trusts (so far as not the responsibility of Cabinet).

Membership

6. The committee is made up of 7 formal members, who are not leaders of their political group, on a none proportional basis, with four ex-officio members with rights to speak but not vote the Cabinet with responsibility for Corporate Governance, and the Chairs of the Overview & Scrutiny Management Committee, and Standards Committee.(and a treasury management expert, although no such role holder is appointed).
 During the year (May 2018 to April 2019) the Committee met on 7 occasions.
 Attendance was

Cllr Hilary Richards (chair)	7	Cllr Julie Stewart Turner	3
Cllr Carole Pattison	6	Cllr John Taylor	3
Cllr Kath Pinnock	6	Cllr Gemma Wilson	1
Cllr Ken Sims	4		
Also attended Cllr Andrew Pinnock, Cllr Mohan Sokhal			

Cllrs Richards and Sims were not re-elected,
 Cllrs Stewart Turner and Wilson stood down at May 2019.

Topics considered during 2018/19

7. The specific topics considered by the Corporate Governance & Audit Committee during the year were.

Accounting & Finance	Approval of Final Accounts for 2017/18, and the Annual Governance Statement, and the report of the External Auditor (KPMG) Information about externally audited grant claims Consideration of Reports on Bad Debts that were to be written off. Treasury Management Strategy and monitoring External Audit Plan, Progress Report and sector update (Grant Thornton) Reports on debt management
Internal Audit & Control	Annual report of Internal Audit Four Quarterly reports of Internal Audit Report of Internal assessor –Internal audit compliance with Public Sector Internal Audit Standards, and follow up report
Risk	Risk and Third Parties Risk Management Statement compliance
Business Control & Assurance	Annual Emergency Planning & Business Continuity Report Information Governance/GDPR Annual report , and assurance update Two Corporate Customer Standards Report (including Ombudsman comments)
Council Procedures	Proposed changes to - Constitution - Code of Conduct -Terms of reference of Health & Wellbeing Board - Contract Procedure Rules - Financial Procedure rules
Meeting & Memberships	Dates of Council meetings
Members Allowance	Changes to rates and allowances

Committee Training

8. The committee carried out a programme of training, topics included
- Treasury management (provided by Arlingclose treasury advisors)
 - Role of the Audit Committee (provided internally, but based on external training attended by the Chair of the Committee and Head of Risk in Summer 2018)
 - Debt Collection processes and management

Change of External Auditor

9. The Council has changed external auditors during the year. The former auditors KPMG have served the council since the transfer of the Audit Commission/District Audit activity to the company in 2013. The new auditors are Grant Thornton who were appointed following a competition organised by Public Sector Audit Appointments who acted as agents for this Committee and the council in their appointment.

Plans for the year 2019/20.

10. The intention is to carry on the important work of the committee in strengthening governance arrangements and ensuring that adequate arrangements exist to assure the organisation about the control of its business, considering both financial, legislative, operational and reputational risk. The Committee will also look to advise council about improvements to the operations of democratic governance and member lead processes, and monitor progress on procurement and other projects. The committee will seek to engage officers to improve the quality of response to advice from officers responsible for assurance, such as internal audit. The committee will continue its programme of training, ensuring that it is knowledgeable, effective and provides appropriate challenge to the organisation .The committee look forward to working with the next external auditors.

Cllr Carole Pattison

Cllr Kath Pinnock

Cllr John Taylor

May 2019

