

# Public Document Pack



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

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Thursday 16 January 2020

## Notice of Meeting

Dear Member

### **Corporate Governance and Audit Committee**

The **Corporate Governance and Audit Committee** will meet in the **Meeting Room 1 - Town Hall, Huddersfield** at **10.00 am** on **Friday 24 January 2020**.

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".

**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 Will Simpson (Chair)  
Councillor Kath Pinnock  
Councillor Steve Hall  
Councillor John Taylor  
Councillor Paola Antonia Davies  
Councillor Susan Lee-Richards  
Councillor Martyn Bolt

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  
R Smith

#### **Green**

K Allison

#### **Independent**

C Greaves  
T Lyons

#### **Labour**

M Akhtar  
M Sokhal  
M Kaushik  
H Uppal

#### **Liberal Democrat**

A Munro  
A Pinnock  
J Lawson  
A Marchington

### **Ex Officio Members**

Councillor Graham Turner – Cabinet Member Corporate  
Councillor Elizabeth Smaje – Chair Overview and Scrutiny Management Committee  
Councillor Paul Davies – Chair Standards Committee

# Agenda

## Reports or Explanatory Notes Attached

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**Pages**

**1: Membership of the Committee**

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

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**2: 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.

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**3: Minutes of Previous Meeting**

3 - 6

To approve the Minutes of the meeting of the Committee held on 15 November 2020.

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**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.

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**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.

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**6: Public Question Time**

The Committee will hear any questions from the general public.

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**7: Place Partnerships Lead Member Role - Update**

7 - 18

To receive the report.

Contact: Carl Whistlecraft – Head of Democracy

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**8: Amendments to Health and Wellbeing Board Terms of Reference**

19 - 24

To receive the report.

Contact: Tom Brailsford - Service Director Resources, Improvement and Partnerships

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**9: Treasury Management Strategy 2019-20 Update**

25 - 50

To receive the report.

Contact: Eamonn Croston – Strategic Director.

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**10: Audit Progress Report and Sector Update**

51 - 64

To receive the report.

Contact: Robin Baker – Grant Thornton External Auditor

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**11: Quarterly Report of Internal Audit 2019/20 Quarter 3**

65 - 68

To receive the report.

Contact: Martin Dearnley – Head of Audit and Risk

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**12: Exclusion of the Public**

To resolve that under Section 100(A)(4) of the Local Government Act

1972, the public be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Act.

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**13: Quarterly Report of Internal Audit 2019/20 Quarter 3**

69 - 84

To receive the report.

Contact: Martin Dearnley – Head of Audit and Risk

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<b>KIRKLEES COUNCIL</b>				
<b>COUNCIL/CABINET/COMMITTEE MEETINGS ETC</b>				
<b>DECLARATION OF INTERESTS</b>				
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.



Contact Officer: Leigh Webb

## KIRKLEES COUNCIL

### CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Friday 15th November 2019

Present: Councillor Will Simpson (Chair)  
Councillor Kath Pinnock  
Councillor John Taylor  
Councillor Paola Antonia Davies  
Councillor Susan Lee-Richards  
  
Councillor G Turner (ex-officio)

**1 Membership of the Committee**

Councillor Martyn Bolt and Councillor Steve Hall submitted apologies.

**2 Minutes of Previous Meeting**

**RESOLVED** - That the Minutes of the meeting held on 13 September 2019 be approved as a correct record.

**3 Interests**

No interests were declared.

**4 Admission of the Public**

It was noted that Agenda Items 13 and 14 would be considered in private session (Minute No. 13 and 14 refers).

**5 Deputations/Petitions**

None received.

**6 Compulsory Review of Polling Districts and Polling Stations**

The Committee received details of amendments to a report regarding the review of Polling Districts and Polling Stations which had been originally considered and agreed by the Corporate Governance and Audit Committee on 13 September 2019. The original report was appended to the amendment report.

It was reported that following information provided by the Gazetteer, anomalies had been identified within the (Acting) Returning Officer (ARO) submission which was appended to the report. The anomalies related to the details provided regarding the properties affected by the boundary changes in MF04/MF05 and DE02/DE03. It was explained that the location of the proposed boundary changes remained unchanged.

A revised ARO submission setting out the amendments was attached with amended text is highlighted for the Committee's attention.

**RESOLVED** - That the revisions to the original report, submitted to this Committee on 13 September 2019, be noted.

## **7 Information Governance Annual Report**

The Committee received a report on the main Information Governance events and activities for the year 2017/18 including:

- Information Governance matters, particularly the impact of the new General Data Protection Regulation
- Information access requests under the Freedom of Information Act 2000,
- Environmental Information Regulations 2004
- Subject access requests made under the Data Protection Act 2018.
- An outline of the improvements and developments planned for 2019/20

Discussion took place with regards to (i) compliance with staff mandatory training requirements (ii) compliance in respect of requests for access to personal information received and processed in line with data protection legislation and (iii) elected member access to online training.

### **RESOLVED –**

1. That the Information Governance Annual Report 2018/19 be noted.
2. That, in addition to the Annual Report, a half yearly update be submitted to this Committee.

## **8 External Audit Progress Report and Sector Update**

The Committee received a verbal progress report from Grant Thornton External Auditors, which set out the progress made on delivering responsibilities. It was reported that the statement of accounts would be signed off next week. Work had been undertaken to review the existing valuation of assets.

Reference was made to recent consultations in respect of the following:

Code of Audit Practice

Local Authority Finance Reporting and External Audit

CPFA Financial Management Code

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

## **9 Treasury Management - Half Yearly Monitoring**

The Committee received a report which provided an overview of half-yearly treasury monitoring for the period 1 April to 30 September 2019. It was noted that (i) the report provided assurance that the Council's treasury management function was being managed prudently and pro-actively (ii) external investments averaged £34.9m during the period at an average rate of 1.12% and (iii) investments had ranged from a peak of £42.7 and a low of £22.5m.

The report advised that the treasury management revenue budget was forecast to underspend by £2.7in 2019/2020, against an annual budget provision of £22.2m. The change in Minimum Revenue Provision (MRP) policy has resulted in an overall

underspend against baseline of £13.5m. The revised Minimum Revenue Provision (MRP) policy is to provide for MRP on the basis of the asset life to which external borrowing is incurred rather than the older version of a 4% reducing balance of the Capital Financing Requirement (CFR). The MRP calculation is used to determine the amount of revenue resources that need to be set aside annually by the Council to meet its debt obligations.

The report provided an overview and key headlines in terms of (i) economic context (ii) investment performance (iii) borrowing performance (iv) revenue budget monitoring (v) prudential indicators (vi) future treasury management strategy and (vii) borrowing and investment general strategy 2019/20.

**RESOLVED -**

- (1) That the half-year treasury management 2019-2020 performance report be noted.
- (2) That the report be referred to the meeting of Cabinet on 3 December 2019 and Council on 15 January 2020.

**10 Risk Management Update Report**

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

Discussion took place regarding care sector pay inflation and the waste management strategy in light of the fact that the waste disposal contract is due to expire in 2023.

(The Committee considered the exempt information at Agenda Item 13 (Minute No. 13 refers) in respect of this item).

**RESOLVED -**

That the Risk Management update report be received and noted.

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

The Committee received a report which set out the activities of internal audit during the second quarter of 2019/2020. The report contained information regarding 14 formal opinion based pieces of work, 3 investigations and various other projects and tasks. It was noted that, overall, 100% of the work in the new period had reflected a positive outcome, and that the cumulative positive outcome for the year was 78%.

(The Committee considered the exempt information at Agenda Item 14 (Minute No. 14 refers) in respect of this item).

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

**12 Exclusion of the Public**

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

**13 Risk Management Update Report**

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

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

**RESOLVED –**

- (1) That the Risk Management update report be received and noted.
- (2) That future reports include details of mitigation/remedial measures in respect of the key significant areas of risk.

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

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

The Committee received the Quarter 2 report of Internal Audit, covering the period July to September 2019. The report set out details of internal audit activity and provided an update on the monitoring of progress regarding the implementation of the Annual Governance Statement, and other assurance information.

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

**Name of meeting:** Corporate Governance and Audit Committee

**Date:** Friday 24 January 2020

**Title of report:** Place Partnership Lead Member Role - Update

**Purpose of report:**

To provide Corporate Governance and Audit Committee with an update on the progress of the Place Partnership Lead member role following its approval by Council on 18 September 2019.

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 <u>Council's Forward Plan (key decisions and private reports)</u> ?	No
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 January 2020
Is it also signed off by the Service Director for Finance IT and Transactional Services?	Eamon Croston – 13 January 2020
Is it also signed off by the Service Director for Legal Governance and Commissioning Support?	Julie Muscroft – 13 January 2020
Cabinet member <u>portfolio</u>	Councillor Cathy Scott – 6 January 2020

**Electoral wards affected:** All

**Ward councillors consulted:** Whilst Ward councillors have not been consulted on the explicit contents of this report, all have been given the opportunity to work with Place Partnership Lead members as part of their ongoing work.

**Public or private:** Public

**Has GDPR been considered?** There are no GDPR considerations in respect of this report

## 1. Summary

The notion of Place Partnerships was agreed by Annual Council in May 2019. In so doing Council also agreed to establish the Place Partnership Lead member role (role profile attached at Appendix 1). This was considered by this Committee in August 2019 and thereafter referred to Council in September 2019 where the role, and associated allowance, was approved.

This paper seeks to provide Corporate Governance and Audit Committee with an update on the work that has taken place in recent months to progress the pilot initiative.

## 2. Information

The creation of Place Partnerships is predicated on the view that there are strategic issues that are best responded to on a geography greater than a Ward. The intention is that intelligence/data will be used to determine the key theme to be considered at Place Partnership level. For 2019/20 the theme is improving mental health outcomes and domestic abuse. An additional £1m and £400k respectively has been put in to the 2019/20 budget to support this work.

Place Partnerships cover the following geographies which have been determined using demographics as a basis. The Lead Member responsible for each Place is set out below:

- Huddersfield North – Cllr Ullah;
- Huddersfield Central - Cllr Alison;
- Huddersfield Rural – Cllr Armer;
- Colne Valley – Cllr Murgatroyd;
- Dewsbury – Cllr Asif;
- Spenn Valley – Cllr A Pinnock;
- Batley, Birstall and Birkenshaw – Cllr Lowe

In developing the pilot model the intention is that each Place Partnership Lead Councillor will work with Ward Councillors using the data/intelligence to propose interventions that will lead to better outcomes in respect of mental health and domestic abuse. They will make recommendations to Cabinet on how the additional funding will be spent.

From the outset Lead Members have sought to work collaboratively and in so doing have co-produced the approach that they wish to take. They have already met on four occasions in this context. Whilst there is an acknowledgement that the seven geographies are very different Lead Members have recognised the need to develop an overarching framework for their work. This is attached at Appendix 2. Similarly the Cabinet Member with responsibility for this piece of work, Councillor Cathy Scott, has commissioned officers to set out the core expectations for Lead Members when working up their recommendations for Cabinet consideration. A copy is attached at Appendix 3.

The 7 Place Partnership Leads are mindful that their work will need a longer time frame than the initial 12 months in light of work not realistically beginning until July to account for co-producing the approach. This has been acknowledged and their work will continue beyond the current financial year in order to maximise the opportunity for their work to deliver positive outcomes.

By way of a more detailed update details of the progress made by each Place Partnership Lead is set out below:

A similar approach has been adopted across all seven place partnership areas with regards to mental health which is summarised by area below. The specific place partnership update

provide an overview of the emerging priorities and theme by area, work that is currently in progress and next steps for stakeholder engagement approaches and plans.

## **General approach adopted across the seven place partnerships**

A briefing between the lead member and the public health intelligence lead to go through the mental health profile for the area to start to better understand the protective and risk factors that impact on mental health, and evidence based mental health prevention approaches that have been shown to be cost effective and improve health outcomes.

The mental health intelligence profiles were shared with all ward members in each place partnership area who were then invited to meet with their lead member and intelligence lead to:

- discuss the information available;
- share their local ward knowledge and experience;
- request further intelligence at ward level;
- share details of existing and planned interventions that have been commissioned and;
- share good practice with a view to helping them to identifying a priority theme, which could be ward specific or shared across all place partnership area.

Lead members and ward Councillors started to identify their priority theme(s) and population group(s) affected with a view to developing an action plan which seeks to engage with wider local stakeholders (services, partners, third sector organisation, and service users) to identify potential interventions and approaches that will make a difference.

The seven place partnerships are at different stages of this process, with broad/emerging mental health themes for each area set out below.

### Huddersfield North

Based on the profile information and following a meeting with ward councillors in October, the emerging areas of focus are:-

- Higher proportion of adults reporting low life satisfaction and low happiness, higher rates of self-harm and higher levels of adults saying they feel lonely. Households significantly below Kirklees average for people worrying about money and lower proportion of adults are qualified to level 2 and unemployed.
- Lower levels of people saying they feel safe in their local area and lower levels of adults using green spaces.
- Higher proportion of young people and children living in poverty and higher numbers of young people feel low happiness and are self-harming.

Information is currently being sought from Northorpe Hall and Huddersfield Football Foundation on what support is available to young people, parents, teachers and communities. Information has also been requested to better understand what mental health activity is being delivered, what has been and is being commissioned via the Council, Clinical Commissioning Groups, Locala, schools etc. in order not to duplicate discussions and activities. Engagement with the community and key stakeholder groups will be planned once this is better understood.

The immediate next steps agreed by ward councillors are (i) in January to pull together a list of all ward organisations, which councillors will also contribute to, (ii) draft survey monkey questionnaire to be shared with councillors for their input, (iii) mid-February questionnaire to go out to local organisations with a deadline of 11<sup>th</sup> March, (iv) Mid- March, meeting arranged to discuss the survey results, (v) evening workshop arranged in March for frontline services (an invitation may be extended to Huddersfield Rural and Central if common issues emerge from fact-finding), (vi) North Huddersfield place partnership workshop for local providers.

Information gathered will help inform next steps.

### Huddersfield Central

Based on the profile information and following a meeting with ward councillors in September, the emerging areas of focus are:-

- Adults self-reporting a mental health condition
- Supporting women from all cultural backgrounds, neighbourhoods and household incomes.
- Socially connected adults – tackling loneliness/isolation
- Adults using green spaces

Initial engagement activity with key stakeholders has taken place with the Dalton ward partnership and Dalton Together, Almondbury ward partnership, Newsome ward patch workers group. Further engagement is being planned with community organisations in the wards as well as arranging visits to key local commissioned organisations e.g. HOOT, Women's Space etc.

A meeting will take place next week to review agreed actions and start to plan ward specific and wider engagement.

### Huddersfield Rural

The focus of the work will be on early intervention and prevention activity. Based on the mental health profile information and local councillor knowledge, the target groups will be:

- Young people and impact of mental health on their future lives and their families.
- The elderly and social isolation, which is hidden in many cases.

Huddersfield Rural councillors have agreed that in terms of young people and stakeholder engagement the ideal approach will be to work with the three high school pyramids (Shelley College, Holmfirth High and Honley High) linking in with the work of the school community hubs. Initial discussions have taken place with the school hub co-ordinators & manager about working together to share information/ knowledge and do joint engagement.

Huddersfield Rural Councillors have been gathering information about current local community activity for both target groups as well as best practice initiatives, past and present.

The immediate next steps agreed with ward councillors are (i) a questionnaire (developed with public health and agreed by Cllrs) to services and community contacts to go out imminently; (ii) a fact finding drop-in in January focusing on older people and isolation; (iii) a fact finding drop-in in February focusing on children and young people and (iv) specific engagement with target groups in the area.

Information gathered will help inform next steps.

### Colne Valley

Based on the profile information and following a meeting with ward councillors in September, the target group will be young people and families.

The lead member has met with the public health intelligence officer to consider the engagement approach and the questions that could be asked of stakeholder organisations as part of the initial fact finding and subsequent workshop/ discussion. In particular this will include what support they think could be helpful in family and community settings, and any support that could help in a school setting or equip schools to promote positive mental health and deal with issues



Information has been requested from Northorpe Hall to find out which schools in the three wards are accessing the emotional health and well-being support available and the nature of that support.

The lead councillor has attended the Colne Valley / Golcar Aspire School Hub to share information about the place partnership working. Initial discussion has taken place with the school hub manager about working together to share information and knowledge and do joint engagement.

In Lindley ward the councillors wish to focus on improving support for young people and families in community settings. Initial engagement will take place with stakeholder organisations at the Lindley Ward Community Partnership meetings.

The immediate next steps agreed with ward councillors are to (i) work with the Aspire school hub and community plus team to identify key groups and stakeholders to target to complete a questionnaire across the 3 wards, (ii) arrange locally based drop-ins for stakeholders to share their views, (iii) arrange a Colne Valley and Golcar workshop, (iv) engage with the members of the Lindley partnership group in February.

### Dewsbury

The Dewsbury place partnership has agreed to focus on two of the ten challenges flagged up by the Dewsbury mental health intelligence summary, which are:-

- Lower proportion of adults who are socially connected, as this trend has been worsening.
- Lower level of adults using greenspaces. Ward members are looking at the wider determinants of mental health and reducing inequalities to consider best practice and approaches to tackle loneliness and increasing use of greenspace.

Base line information is being collated on relevant service and other key stakeholder provision and support available to adults across Kirklees and Dewsbury. Ward members have also requested information on the most up to date Kirklees mental health assessment, Kirklees loneliness strategy group and the community insights report to better understand what is already planned in terms of commissioning to address these priorities, plus details about outcomes delivered as well as any identifiable gaps.

The Dewsbury place partnership are focusing on the principles of what good public mental health looks like with regards to upstream interventions that enable early help, and drawing on people's lived experiences of mental health problems and mental illness, as well as the wider community, to identify solutions and promote equality.

Engagement with local stakeholders will explore what is already working effectively, awareness of any planned activity and gaps and what more could be done by working together to make a difference.

The Dewsbury lead member is keen to advocate that all 69 members be asked to sign up to a pledge to become mental health champions.

The immediate next steps agreed with ward councillors are (i) place partnership meeting with councillors end of January, (ii) app development workshop early February, (iii) a questionnaire (developed with public health and agreed by Cllrs) to services and key public providers to go out in February, (iv) meeting with ward councillors to plan a similar questionnaire for community organisations/citizens, (v) base line evidence collated into report end February, (vi) place partnership meeting early March, (vii) workshop in March bringing all stakeholders together,

(viii) post workshop and drop-ins, evidence base update and proposal development for Cabinet early April.

### Spen Valley

Based on the profile information and following a meeting with ward councillors the focus will be:-

- Develop a better picture of what exists in the Spen district supporting mental health (mental health specific and also general community activities which benefit good mental health and wellbeing).
- Criteria / principals for focus and proposals for any expenditure should include self-sustainability and not short-term interventions.
- To focus on early 'upstream' interventions for all and 'to turn the tap off' and prevent issues from arising.
- Promoting, connecting, supporting & developing existing community group (rather than creating from new groups)
- Interventions that benefit mental health 'by stealth' in that they are not branded as mental health interventions which could put some people off from access them.

A follow on meeting has been arranged with all ward members in January to plan stakeholder engagement.

### Batley, Birstall and Birkenshaw

Based on the profile information and following a meeting with ward councillors, interest was expressed in progressing initiatives that build community assets and uses the 5 ways to wellbeing approach as follows:-

- Batley West ward suggested their potential focus could be on young people.
- Batley East ward suggested their potential focus could be on tackling stigma.
- Birstall and Birkenshaw ward suggested their potential focus could be on support into pathways for people with long term conditions/pain.

A further meeting is to be arranged with ward members to explore the potential key themes and population group/s to focus on and share information on what is commissioned or available through local organisations.

A plan and timeframe for engagement with other stakeholders will be explored and planned further at a future meeting. The engagement approach will vary in each ward and be developed with relevant ward members to build on local opportunities and circumstances. Local stakeholders will be invited to share and discuss what is already working effectively, raise awareness of any planned activity and gaps and explore what more could be done locally by working together. Some ward members are keen to involve service users to better understand the experience of living with mental health and from their perspective what would make a difference to their quality of life locally.

The immediate next steps are to contact ward councillors to plan bespoke engagement in their areas.

### Domestic Abuse

Domestic abuse intelligence has recently been shared with all lead members who are due to meet with the Domestic Abuse Strategic Partnership in February to share data and intelligence from across the partnership, explore good practice and discuss potential Kirklees wide and place based approaches. Following this information will be shared with ward members to plan next steps with regards to wider engagement.

**NOTE:** The Committee will recall that, in establishing the Lead Councillor role, the members Allowances Independent Review Panel (MAIRP) made the following recommendation:

*(a) Following its evidence-led method of working the Panel would like to hear from the Place Partnerships Lead Councillors when the Panel meets in November 2019 to get a clearer idea of what work is involved and hear about what has (and has not) been achieved so far. They will consider reviewing the allowance at this time, alternatively the Panel will look at the allowance again when they meet in November 2020.*

*(b) The Panel would like to see evidence of the impact of the role and also positive outcomes relating to the pilot theme, Mental Health, Domestic Abuse.*

*(c) The Panel would also like to understand more about the relationship between the Place Partnerships Lead Councillors Role and the Cabinet Lead Member and also with the Councillors within their locality. They would like to know what the impact is, and how it has been achieved.*

At its meeting on 10 January 2020 the MAIRP had the opportunity to meet with five of the Place Partnership Lead Members to discuss and explore the above mentioned points. In particular the MAIRP were keen to ensure that there was sufficient evidence of progress and more importantly to affirm that the role had been assigned the correct band within the overall scheme. In light of the evidence received the MAIRP made the following observations:

- That despite initial delays the role was now beginning to make real progress, with all Place Partnerships being able to evidence activity in line with the framework that had been co-produced by them;
- That this is an exciting and evolving initiative that will need time to develop properly and thereafter become embedded. This will take time, particularly in terms of being able to evidence impact and positive outcomes;
- That the current Band recommended by the MAIRP has been fixed at the correct level based on the evidence received;
- That the MAIRP will continue to revisit the role at future meetings to ensure that it is remunerated appropriately moving forward;
- That thought should be given to the ways in which engagement with Place Partnerships is included as part of the developing role profile for the Ward Councillor.

### **3. Implications for the Council**

- **Working with People** - Our developing approach to place-based working, is predicated on working outwards from communities with a strong focus on genuine engagement and dialogue. The Place Partnerships Lead Councillor Role should be seen within this context.
- **Working with Partners** - Place based working is being developed in a way that recognises the need for certain issues to be discussed and addressed on a larger geographical footprint than the Ward. For example the proposed work looking at mental health will demand wider partnership dialogue, co-production and solutions. Partnership working will be at the heart of our developing approach and the role of the Place Partnerships Lead Councillor Role is essential to facilitate councillor leadership in securing a partnership approach that best meets the needs of specific areas.
- **Place Based Working** - This proposal is an important part of our developing approach to place based working.

- **Improving outcomes for children** - Place based working will inevitably incorporate the consideration, discussion and progression of issues that will improve outcomes for children within those seven areas.
- **Climate change and air quality** – N/A at this stage although this will become clearer as work progresses dependent on the specific initiatives that each Place Partnership decides to progress.
- **Other (eg Legal/Financial or Human Resources)** – Each Place Partnership Lead has dedicated officer support to assist them in progressing their work. There is an expectation that services within the council and across partners work collaboratively with Place Partnership Leads to assist them in their work.

#### **4. Consultees and their opinions**

The following have been consulted on the contents of this report and endorse the points contained therein:

Place Partnership Lead Members;  
Councillor Cathy Scott;  
The Strategic Director for Corporate Strategy, Commissioning and Public Health  
Vina Randhawa, Democracy Manager (Active Citizens and Places)

#### **5. Next steps and timelines**

Plans will be firmed up in the New Year for wider stakeholder engagement around mental health based on the approaches outlined above in each place partnership area.

All lead members have been invited to attend the Domestic Abuse Strategic Partnership in February as detailed above. Intelligence summaries will be shared with ward members following this meeting and next steps planned with regards to wider engagement.

#### **6. Officer recommendations**

That Corporate Governance and Audit Committee note the contents of the report.

#### **7. Cabinet Portfolio Holder's recommendations**

That Corporate Governance and Audit Committee note the contents of the report.

#### **8. Contact officer**

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

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

[Report to Annual Council](#) on 22 May 2019

[Report to Corporate Governance](#) and Audit Committee on 9 August 2019

[Report to Council](#) on 18 September 2019

#### **10. Strategic Director responsible**

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

# Place Partnership Lead Councillor

## Leading, Representing and Working Together

A Kirklees Place Partnership 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 communities, 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:
  - Best start;
  - Well;
  - Independent;
  - Aspire and achieve;
  - Sustainable economy;
  - Safe and cohesive;
  - Clean and green
- Identify, support and build community capacity;
- Refine existing, and develop new, approaches to citizen engagement;
- Ensure that locality stakeholders, community organisations are involved in such engagement;
- Develop and maintain effective working relationships with partners;
- Facilitate partnership working with other agencies (e.g. health, police etc) in the context of citizen engagement activity and responding to the outcomes of such work;
- Oversee service delivery;
- Monitor progress against agreed actions and evaluate success and impact;
- Communicate and promote the work carried out in the locality.

# Place Partnership Lead Councillor

## Governance and Decision Making

A Kirklees Place Partnership Lead Councillor will:

- 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 councillors within the respective locality.
- Attend Overview and Scrutiny Committee and Scrutiny Panels to discuss the work for which they are responsible (as appropriate)

Key considerations when submitting a Place Partnership proposal for Cabinet Member approval:

1. How has data and intelligence informed and influenced your proposal?	
2. Have you engaged with Ward Councillors in prioritising your area of focus? When, how and what were the outcomes?	
3. Have you engaged with key organisations, stakeholders and citizens in co-designing the area of focus? Who, when, how and what were the outcomes?	
4. What other factors have you considered in shaping your proposal?	
5. Have you considered wider resource opportunities that can support your area of focus? Which ones and how will they contribute?	
6. Do Ward Councillors support your proposal? If not, why not?	
7. How will your proposal contribute to the delivery of our shared outcomes?	
8. How will the proposal be sustainable (if that is the intention)?	

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**Name of meeting:** Corporate Governance and Audit Committee  
**Date:** 24<sup>th</sup> January 2020  
**Title of report:** Children and Young People’s Partnership & Plan oversight – Amendments to the Health and Wellbeing Board Terms of Reference

**Purpose of report:** This report asks the committee to endorse proposed changes to the health & Wellbeing Board Terms of Reference. It informs the committee about new arrangements to manage the Children and Young People’s Partnership and to develop a new Children and Young People’s Plan. The Health and Wellbeing Board has agreed to provide governance for this work and to amend its Terms of Reference to do so. The proposed changes to Terms of Reference will now progress to council if endorsed by this committee

<b>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?</b>	No
<b>Key Decision - Is it in the <u>Council’s Forward Plan (key decisions and private reports)?</u></b>	No
<b>The Decision - Is it eligible for call in by Scrutiny?</b>	Not applicable
<b>Date signed off by <u>Strategic Director</u> &amp; name</b>  <b>Is it also signed off by the Service Director for Finance IT and Transactional Services?</b>  <b>Is it also signed off by the Service Director for Legal Governance and Commissioning Support?</b>	Mel Meggs, Director for Children’s Services
<b>Cabinet member <u>portfolio</u></b>	Cllr Viv Kendrick

**Electoral wards affected:** all

**Ward councillors consulted:** none

**Public or private:** public

**Has GDPR been considered?** Yes. There is no personal information contained within this report.

## 1. Summary

The Children and Young People's Partnership was relaunched in 2019. The new Partnership has open cross sector membership, replacing the previous formal committee structure. Consequently, new governance arrangements are required. The Health and Wellbeing Board has agreed to amend its Terms of Reference to include the governance of the Children and Young People's Partnership and new Children and Young People's Plan. This amendment now needs to be agreed by this committee and Council.

## 2. Information required to take a decision

### 2.1 The Children and Young People's Partnership

The Children and Young People's Partnership was relaunched following consultation and engagement in March 2019 at an event attended by 80 participants from a cross section of organisations working with children in Kirklees. The Children and Young People's Partnership had been paused for the previous 18 months to focus attention and resources on the Improvement Board and its work. The old Children and Young People's Partnership was a formal committee, with a closed membership of senior leaders and a traditional committee cycle.

The new Partnership model was developed at the March consultation and relaunch event. It aspires to bring together members' collective insight, expertise and resources to collaborate to achieve **the best start in life** for children and young people. Membership of the new Partnership is open to all organisations from the public and third sector, including strategic managers, frontline workers, elected representatives, and both specialist and universal service providers. Members are accountable to each other and to children, young people and families in Kirklees. There is no formal committee structure, no formal decision making responsibilities. The people involved are there because they want to collaborate to achieve our ambitions for children. The Partnership has agreed that it will:

- Focus energy and expertise on agreed priority areas of work;
- Share intelligence and insight into children and young people's experiences so that children's outcomes and services are improved and work is evidence-led;
- Use collective insight into children's voice and views to influence and shape its work
- Collaborate effectively to use partner organisations' resources to address to collective goals & priorities;
- Influence, inform and provide strategic leadership in the children's sector;
- Develop a Children and Young People's Plan and agree key, shared priorities, based on evidence of need that members bring their collective energy and focus to;
- Provide analysis to inform service improvements, transformation and cultural change, including an annual review of key outcome data and updates from related partnerships
- Provide coherence for a range of thematic partnerships and plans that affect Children and Young People's outcomes.

The Partnership has agreed that its members will:

- Work restoratively – with not to or for
- Listen to and value children's voices
- Share power and responsibility across sectors and agencies
- Provide challenge and support to hold each other to account
- Celebrate and serve the diverse needs of people and places in Kirklees.

### 2.2 The Children and Young People's Plan

There is no longer a statutory requirement to produce a Children and Young People's Plan. However, there is consensus that a Plan provides a collective focus and clarity about priorities to be championed and addressed across the Partnership. Work with the new Children and Young People's Partnership has focussed on assessing intelligence and insight from a range of sources to agree priorities. (e.g. KJSA, Year 9 Health Survey, Community Hubs' insight; young people's voice and influence work and commentary; service key performance data on outcomes for the child population and for specific vulnerable groups). A new Children and Young People's Plan

has been developed to address nine agreed priorities that support good outcomes for all children. The priorities will help close the gaps in children's inequalities and their life chances.

Six of the Priorities are already being addressed by a range of thematic partnerships. For these, the Children and Young People's Partnership will support and share that work more widely, but not seek to undertake additional work to avoid confusion, duplication and displacement. The six priorities where work is ongoing are:

- **Emotional health and resilience** – Transformation Partnership
- **Early Support in communities** – Kirklees Children's Safeguarding Partnership Task & Finish Group, Best Start Partnership, Early Support Review
- **Food & Physical Activity** – Health & Wellbeing Board; Thriving Kirklees, Active Kirklees
- **Vulnerability to criminal exploitation** – Youth Development Programme Board; Kirklees Children's Safeguarding Partnership; Communities Board.
- **Gaps in educational attainment** between some groups and the Kirklees attainment rates – Community Hubs, Education and Learning Partnership
- **Outcomes for Looked After children** – Improvement Board; Corporate Parenting Board; Kirklees Safeguarding Children Partnership.

The Children's Partnership has been, and will continue to develop new structures to deliver work and improve outcomes in three new priority areas. They are:

- **To tackle child poverty** – This priority is being developed in collaboration with Tackling Poverty work.
- **To support inclusion and better outcomes for LGBT+ young people** – new arrangements are being developed for this priority in collaboration with the Brunswick Centre's yOUTH project.
- **To grow our youth offer – places to go, people to see, things to do.** This work is being developed and delivered through the new Youth Programme Development Board arrangements.

### **2.3 Governance and Accountability**

The decision to develop an open, inclusive forum for the Children and Young People's Partnership with a fluid membership created a conundrum for the governance and accountability of the Children and Young People's Plan. Discussions with relevant portfolio holders and senior officers in the council have led to the proposal and agreement that the Health and Wellbeing Board take on the oversight of this work. The rationale for this includes:

- The Board already has oversight for a range of local planning and services
- The Board's membership includes the relevant cross-sector organisations
- The contribution that the Children and Young People's Plan makes to achieving the Health and Wellbeing Strategy

## **3. Implications for the Council**

- **Working with People**

None directly as a consequence of amending the Health & Wellbeing Board's Terms of Reference

- **Working with Partners**

The Health & Wellbeing Board membership includes key statutory partners (in addition to cabinet, council and executive members from Kirklees Council) who have agreed to provide oversight and governance for the Children and Young People's Partnership and its Plan.

**Place Based Working** None directly as a consequence of amending the Health & Wellbeing Board's Terms of Reference

- **Improving outcomes for children** – Improving children's outcomes is core to the oversight work of the Health & Wellbeing Board, and that of the Children and Young People's Plan and Partnership work.

- **Other (eg Legal/Financial or Human Resources) - none**

**4. Consultees and their opinions**

The proposed changes to the Health and Wellbeing Board's Terms of Reference were agreed at their meeting on November 21<sup>st</sup> 2019 to enable it to provide governance oversight of this work.

**5. Next steps and timelines**

Council will be asked to approve the amended Health and Wellbeing Board Terms of Reference in March 2020. Once agreed, the Board will receive reports and updates on this work every six months.

**6. Officer recommendations and reasons**

That the Committee agree to the amended Terms of Reference for the Health and Wellbeing Board to provide an appropriate cross sector governance route for the oversight of the work of the Children and Young People's Partnership.

**7. Cabinet Portfolio Holder's recommendations**

Cllr Viv Kendrick recommends that the proposal to amend the health and Wellbeing Board's terms of Reference is endorsed by this committee.

**8. Contact officer**

Tom Brailsford, Service Director Resources, Improvement & Partnerships, Children's Services.  
[Tom.brailsford@kirklees.gov.uk](mailto:Tom.brailsford@kirklees.gov.uk) tel:07711 015748

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

The minutes of the Health and Wellbeing Board recording the decision to amend their Terms of Reference are available here:

<https://democracy.kirklees.gov.uk/documents/g5994/Decisions%2021st-Nov-2019%2014.15%20Health%20and%20Wellbeing%20Board.pdf?T=2>

The proposed amendments to the Terms of Reference are highlighted in the appendix to this report.

**10. Service Director responsible**

Mel Meggs, Director for Children's Services

## **Appendix – Health & Wellbeing Board Terms of Reference, with proposed changes highlighted.**

### **Membership**

Membership of the Board includes voting and non-voting members as set out below:-

#### **Voting members**

- Three Members of Kirklees Council's Cabinet, one of whom may be the Leader
- One Senior Councillor from the main opposition group
- One Councillor from a political group other than the administration and main opposition group
- Director for Children Services (including as representative of the Children & Young Peoples Partnership)
- Director for Public Health
- Director of Adult Social Care
- One representative of local Kirklees Healthwatch
- Three representatives of North Kirklees Clinical Commissioning Group
- Three representatives of Greater Huddersfield Clinical Commissioning Group
- One representative of Kirklees Integrated Provider Board

#### **Non-voting members**

- Chief Executive Kirklees Council
- Representative of NHS England ( Statutory requirement: to participate in the Board's preparation of JSNA / JHWS and if requested to participate in exercise of the commissioning functions of the Board in relation to the Kirklees HWB Area)

#### **Invited observers**

Invited observers from key local partners to promote integration:

Chief Executive or nominated representative of significant partners:

- Mid Yorkshire Hospitals Trust
- Calderdale and Huddersfield Foundation Trust
- South West Yorkshire Partnership Foundation Trust
- Current community health provider
- West Yorkshire Police
- Representative of Kirklees Council Overview and Scrutiny

#### **Terms of Reference**

The Health and Wellbeing Board is a statutory Committee of the Council bringing together the NHS, the Council and partners to:

- Improve the health and wellbeing of the people in their area, reduce health inequalities and promote the integration of services.
- Develop, publish and own the Joint Strategic Needs Assessment for Kirklees (JSNA) (which is known locally as the Kirklees Joint Strategic Assessment (KJSA)) to inform local planning, commissioning and delivery of services and meet the legal responsibilities of Kirklees Council and the Clinical Commissioning Groups.
- Publish and maintain a statement of needs for pharmaceutical services across the Kirklees area.

- Develop, publish and own the Joint Health and Wellbeing Strategy for Kirklees, based on the JSNA and other local intelligence, to provide the overarching framework for planning, commissioning and delivery of services.
- Provide the structure for overseeing local and regional planning and accountabilities for health and wellbeing related services and interventions and the development of sustainable integrated health and social care systems, including children and young people's partnership arrangements.
- Promote integration and partnership working with the NHS, social care, public health and other bodies in the planning, commissioning and delivery of services to improve the wellbeing of the whole population of Kirklees, including as part of regional working.
- Ensure the involvement and engagement of service users, patients and the wider public in planning, commissioning and delivery of services to improve the wellbeing of the whole population of Kirklees.
- Provide leadership and oversight of key strategic programmes, such as the Kirklees Health and Wellbeing Plan, Better Care Fund, and Children & Young Peoples Plan, and to encourage use of associated pooled fund arrangements where appropriate.
- Provide assurance that the commissioning and delivery of plans of partners have taken sufficient account of the Joint Health and Wellbeing Strategy and the Joint Strategic Needs Assessment.
- Ensure that the Council's statutory duties in relation to health protection arrangements and plans are delivered through the work of its sub-committee, the Kirklees Health Protection Board.
- Exercise any other functions of the Council delegated to the Board by the Council.

### **Voting Rights**

See membership list

In accordance with The Local Authority (Public Health, Health and Wellbeing boards and Health Scrutiny) Regulations 2013, if the Council's wishes to alter the voting rights and membership the board must first be consulted on any proposed amendments.

### **Substitute Members**

Voting Board Members can send a substitute to represent them should they be unable to attend and if appropriate cast their vote.

### **Quorum**

The quorum for the board will be attendance by 50% of the accountable bodies and 50% of the membership.



**Name and date of meeting: Corporate Governance and Audit Committee  
24 January 2020**

**Cabinet  
28 January 2020**

**Council  
12 February 2020**

**Title of report: Treasury Management Strategy 2020-21**

**Purpose of report**

Under the CIPFA Code of Practice on Treasury Management (2017) and accompanying Prudential Code 2017 the Council must present a Treasury Management Strategy at the start of each financial year. Alongside the Treasury Management Strategy an Annual Investment Strategy must also be approved by Council.

<b>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?</b>	<b>Yes</b>
<b>Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports?)</a></b>	<b>Key Decision: Yes</b> <b>Private Report/Private Appendix: N/A</b>
<b>The Decision - Is it eligible for call in by Scrutiny?</b>	<b>No</b>
<b>Date signed off by Strategic Director and name</b>	<b>N/A</b>
<b>Is it also signed off by Service Director</b>	<b>Eamonn Croston</b> <b>Julie Muscroft</b>
<b>Is it also signed off by the Service Director Legal, Governance and Commissioning</b>	
<b>Cabinet member <a href="#">portfolio</a></b>	<b>Corporate Graham Turner</b>

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

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

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## 1 Summary

- 1.1 The Council has formally adopted CIPFA's Code of Practice on Treasury Management (2017 Edition), and accompanying Prudential Code 2017, and is thereby required to consider a treasury management strategy before the start of each financial year. In addition, the Ministry for Housing, Communities and Local Government (MHCLG) issued guidance on local authority investments in February 2018, which requires the Council to approve an annual Investment Strategy before the start of each financial year.
- 1.2 This report meets the requirements of the current CIPFA Codes and current MHCLG Guidance (2017 Edition).
- 1.3 Cabinet is responsible for the implementation and monitoring of the treasury management policies. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management. Recent training for members of this Committee was provided in November 2019 by the Council's treasury management advisors/consultants, Arlingclose.
- 1.4 This report will:
- (i) outline the outlook for interest rates and credit risk, and in light of this, recommend an investment strategy (Treasury Management Investments) for the Council to follow in 2020-21;
  - (ii) outline the current and estimated future levels of Council borrowing (internal and external) and recommend a borrowing strategy for 2020-21;
  - (iii) review the methodologies adopted for providing for the repayment of debt and recommend a policy for calculating the Minimum Revenue Provision;
  - (iv) review other treasury management matters including the policy on the use of financial derivatives, prudential indicators, the use of consultants, and the policy on charging interest to the Housing Revenue Account;
  - (v) recommend an annual Investment Strategy (Non-Treasury Investments) for the Council in 2020-21 in line with MHCLG (2017) guidance.

## 2 Information required to take a decision

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

### Economic Background

- 2.1 The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21. UK Consumer Price



Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

- 2.2 The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal
- 2.3 GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth while production was flat and agriculture recorded a fall. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment.

#### Interest Rate Forecast

- 2.4 The Authority's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.

#### Borrowing and Investment – General Strategy for 2020-21

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

Table 1 below sets out the forecast CFR position for the Council as at March 2020 and forecast CFR and borrowing requirements over the following 3 years:

Table 1: Balance Sheet Forecast

	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
General Fund CFR - Non PFI	480.2	540.7	594.6	638.4
PFI	45.8	42.5	39.4	35.5
HRA CFR - Non PFI	172.7	167.7	164.8	164.8
PFI	50.5	48.1	45.2	42.7
Total CFR	749.2	799.0	844.0	881.4
Less: PFI debt liabilities*	96.3	90.6	84.6	78.2
Borrowing CFR	652.9	708.4	759.4	803.2
Finance via;				
Deferred Liabilities	3.8	3.7	3.7	3.6
Internal Borrowing	219.0	222.5	223.7	224.1
External Borrowing	430.1	482.2	532.0	575.5
Total	652.9	708.4	759.4	803.2
Investments	30.0	30.0	30.0	30.0

\*£96.3m PFI Liabilities (£5.7m falling due in 2020-21)

- 2.6 Prior to 2009-10 the Council's policy had been to borrow up to its CFR, investing externally the majority of its balances. With the onset of instabilities in the financial markets and the economic downturn, the policy changed to one of ensuring the security of the Council's balances. This coincided with significant falls in investment returns, making the budgetary benefit of maximising external borrowing more marginal. Thus, the Council has chosen to steadily reduce monies invested externally and instead has used internal balances to offset new borrowing requirements.
- 2.7 The external borrowing necessary to fund the projected rise in CFR highlighted in Table 1 (above) will be a mixture of long and short-term borrowing. The cost of borrowing has been historically low over the past decade. Short term borrowing rates remain relatively low, however, longer term rates have recently increased quite significantly. There was a 1% increase in PWLB rates overnight on the 9th October 2019. This is likely a result of exceptionally high levels of long term borrowing sector wide over recent months, which was getting close to the statutory PWLB limit of £95bn. As HM Treasury had no appetite to extend the limit, they chose to control demand by increasing rates, thereby preserving the facility. As a result, by way of an example, a 30 year maturity loan on 8th October was 1.96% which increased to 2.97% the following day. PWLB borrowing does however remain available, with most rates at or below 3%, which isn't particularly expensive in historical terms.
- 2.8 Table 1 above also reflects a fairly consistent level of internal borrowing forecast over the next 3 years. This largely reflects the view that forecast reserves, balances and net creditors are projected to remain reasonably consistent over the medium term.

- 2.9 This in part depends on the extent to which short term borrowing rates may increase from current. The relative mix of future internal and external borrowing will be considered in conjunction with advice from the Council's external treasury management advisor, noting that provision has been made in updated Council budget plan revenue resource assumptions to accommodate a continued future mix of internal and external borrowing.
- 2.10 The Service Director Finance, supports the approach that the borrowing and investment strategy for 2020-21 continues to place emphasis on the security of the Council's balances. Although credit conditions have been steadily improving, the global recovery is still fragile and regulation changes have increased local authority exposure in the event of a possible default of any financial institutions
- 2.11 It is recommended that balances should continue to be invested to a level which is perceived to be reasonably secure and which is needed to meet the day-to-day cash flow requirements of the Council (around £30 million). The remainder of the balances will be effectively invested internally, that is used to offset borrowing requirements.
- 2.12 In order to increase investment returns, members approved a potential investment of up to £10m in the Local Authorities Pooled Investment Fund (LAPF) as an approved Council Investment in the 2019/20 Treasury Management Strategy. The Council made an initial investment in the LAPF of £5m in May 2019.
- 2.13 Given the nature of the underlying investment (UK based diversified property portfolio) and the potential for domestic economic volatility in the run up to UK's expected withdrawal from the EU on 31 January 2020, advice will be sought from the Council's external treasury advisors, as well as more detailed discussions with the LAPF's Fund Manager, CCLA. Updated Council budget plans have factored in a potential further investment of £5m by the end of March 2020.
- 2.14 Average current Council cashflow balances remain consistent at about £32m (including the LAPF), and officers consider that an investment of a further £5m will still leave about £22m day-to-day cashflow requirement as noted above.

#### Borrowing Strategy

- 2.15 The Council is forecast to hold around £536.4m of external borrowing and other long-term liabilities as at 31 March 2020. This is analysed at Table 2 below:

Table 2 – year end estimate – 31 March 2020

	£m	%
PWLB loans (fixed rate)	274.4	51
LOBOs	60.0	11
Loan stock (fixed rate)	7.0	1
Other long term loans (fixed rate)	43.4	8
Temporary borrowing	45.3	10
<b>Total external borrowing</b>	<b>430.1</b>	
Other Long Term Liabilities (mainly PFI)	96.3	18
<b>Total external debt liabilities</b>	<b>526.4</b>	

2.16 The approved sources of borrowing are:

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

2.17 Historically, the biggest source of borrowing for local authorities has been PWLB loans. These Government loans have offered value for money and also flexibilities to restructure and make possible savings. The Council also has LOBO (Lender's Option, Borrower's Option) loans, where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council will take the option to repay at no cost, if it has the opportunity to do so. The Council's current limit on LOBO borrowing is set at 11% of long-term debt.

Following the 1% increase in PWLB borrowing rates (as noted above in paragraph 2.7), Arlingclose suggest that PWLB rates are now relatively expensive (albeit reset to the rates they were 12 months previous) compared to alternative longer term funding sources, where Councils are considering longer term borrowing. The Council's current approach is to continue to borrow short term, but this will be subject to ongoing review in consultation with Arlingclose, as to when it may be more appropriate to borrow longer term. Alongside this, will be consideration of potential other funding sources that may be more advantageous than prevailing PWLB rates.

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

2.19 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. At the present time, the Council is not in a position to undertake early repayments due to the current prohibitive early repayment rates.

2.20 Salix Finance Limited provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council to date has taken the opportunity to secure £5.9m

interest free loan to part fund the £11m approved street lighting replacement scheme in the Council's approved capital plan.

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

### Investment Strategy

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

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

2.24 A new regulatory update came into force from 3<sup>rd</sup> January 2018; the second Markets in Financial Instruments Directive (MiFID II), which meant that the Council had to formally apply to renew its status as a 'professional client' (also referred to as the 'opt up' option), but subject to certain criteria being met.

2.25 Following full Council approval on 13<sup>th</sup> December 2017, officers have now successfully 'opted up' the Council to professional client status, effective from 3<sup>rd</sup> January 2018. Given the size and range of the Council's treasury management activities, the Service Director Finance believes this to continue to be the most appropriate status.

2.26 The Council will continue to maintain a relatively low risk strategy giving priority to security and liquidity, and as such invest an average of around £20 million externally in relatively short-term, liquid investments through the money markets, for the purpose of managing day-to-day cash flow requirements. Any remaining balances, net of investment in the local authority property fund, will be used internally, offsetting borrowing requirements.

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

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

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

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

- 2.29 Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the approved criteria.
- 2.30 If the UK enters into a recession in 2020-21, there is a small chance that the Bank of England could set its Base Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short term investment options. This situation already exists in many other countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
- 2.31 Annual cash flow forecasts are prepared which are continuously updated. Investment policy and performance will be monitored continuously and will be reported to Members during the year and as part of the annual report on Treasury Management.

#### Statement of Policy on the Minimum Revenue Provision (MRP)

- 2.32 MRP is the statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement – CFR), ie the borrowing taken out in order to finance capital expenditure.
- 2.33 Prior to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008, which came into force on 31 March 2008, the set aside was specified as a percentage of a council’s CFR (2% for HRA debt, 4% for General Fund). The current Regulations are less prescriptive with a requirement to ensure the amount set aside is deemed to be **prudent**, although there is accompanying current MHCLG guidance which sets out possible methods a council might wish to follow.
- 2.34 Current MHCLG guidance recommends that authorities prepare a statement of policy on making MRP in respect of the forthcoming year, with approval by full council before the start of the financial year. If these proposals subsequently need to be varied, a revised statement should be put to full council. Appendix C details the Council’s policy for the provision of MRP. Within the revised MRP policy approved by Council last year, the unwinding of the previous over-provision was profiled equally over 10 years.
- 2.35 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 current unwinding of the previous under-provision has been factored into the Council’s CFR calculations set out earlier at Table 1

2.36 Officer recommendation is that the impact of the additional unwind, will be transferred to Council financial resilience reserves as part of the Council's broader risk strategy set out in the overall annual budget report to Cabinet on 28 January and Budget Council on 12 February 2020.

#### Policy on the Use of Financial Derivatives

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

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

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

#### Non-Treasury Investments

2.40 The Authority may also purchase property for investment purposes and may also make loans and investments for service purposes, for example in shared ownership housing, loans to local businesses and landlords, or as equity investments and loans to the Authority's subsidiaries. Such loans and investments will be subject to the Authority's normal approval processes for revenue and capital expenditure and need not comply with this treasury management strategy. They are however covered by the Authority's Investment Strategy (see Appendix E).

#### Treasury Management Indicators

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

## Other Matters

2.42 The CIPFA Code also requires the Council to note the following matters each year as part of the treasury management strategy:

(i) Investment Consultants

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

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

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

(ii) Investment Training

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

(iii) Investment of money borrowed in advance of need

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

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

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

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



### **3 Implications for the Council**

3.1 **Working with People**  
N/A

3.2 **Working with Partners**  
N/A

3.3 **Placed based working**  
N/A

3.4 **Climate Change and Air Quality**  
N/A

3.5 **Improving Outcomes for Children**  
N/A

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

The revenue implications of the strategies outlined have been reflected in the Council's annual budget report 2020-23.

### **4 Consultees and their opinions**

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

### **5 Next steps**

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

Following consideration at Corporate Governance & Audit Committee, this report will be presented to Cabinet on 28 January 2020 and then full Council on 12 February 2020.

### **6 Officer recommendations and reasons**

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

- (i) the borrowing strategy outlined in paragraphs 2.15 to 2.21;
- (ii) the investment strategy (treasury management investments) outlined in paragraphs 2.22 to 2.31 and Appendices A and B;
- (iii) the policy for provision of repayment of debt (MRP) outlined in paragraphs 2.32 to 2.36 and at Appendix C;
- (iv) the treasury management indicators in Appendix D;
- (v) the Investment Strategy (Non-Treasury Investments) at Appendix E.

**7 Cabinet Portfolio Holder recommendation**

The report and recommendations be submitted to Cabinet on 28 January 2020 and Council on 12 February 2020.

**8 Contact officer**

James Anderson	Head of Accountancy	01484 221000
Rachel Firth	Finance Manager	01484 221000

**9 Background Papers and History of Decisions**

CIPFA’s Code of Practice on Treasury Management in the Public Services; CIPFA’s Prudential Code for Capital Finance in Local Authorities; Guidance on Local Government Investments (MHCLG 2018); The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008; Localism Act 2011. CIPFA Treasury Management Code and Prudential Code 2017

**10 Service Director responsible**

Eamonn Croston	01484 221000
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## **Investment Policy for 2020-21**

### ***Investment Limits:***

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

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

### **Note:**

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

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

### **Liquidity management:**

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

	Short-term Credit Ratings / Long-term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at Dec 2019
	Fitch	Moody's	S & P	£m	Period (2)	
UK Banks / Building Societies (Deposit accounts, fixed term deposits and REPOs)	F1 AAA,AA+,AA,AA-,A+,A, A-	P-1 Aaa,Aa1,Aa2,Aa3,A1,A2,A3	A-1 AAA,AA+,AA,AA-,A+,A,A-	10	<3mth	HSBC Lloyds Group Santander UK Nationwide BS Coventry BS Bank of Scotland Handelsbanken Leeds BS Barclays Close Bros
Foreign Banks (Deposit accounts, fixed term deposits and REPOs)	F1 AAA,AA+,AA,AA-,A+,A,A-	P-1 Aaa,Aa1,Aa2,Aa3,A1,A2,A3	A-1 AAA,AA+,AA,AA-,A+,A,A-	10	<2mth	Various
MMF (1)	-	-	-	10	Instant access/ up to 2 day notice	Aviva Deutsche Bank Aberdeen Standard Goldman Sachs
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth	
UK local authorities (Fixed term deposits)	-	-	-	10	<2mth	
Local Authority Pooled Investment Funds	-	-	-	10	>6mth	

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

**Credit ratings**

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

## **CURRENT MINIMUM REVENUE PROVISION POLICY**

### **1. Background**

- 1.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 requires authorities to make an amount of MRP which the authority considers “prudent”.
- 1.1 The regulation does not itself define “prudent provision”. However, guidance issued alongside the regulations makes recommendations on the interpretation of that term.

### **2 Policy for 2018-19 onwards**

- 2.1 The Service Director Finance recommends the following policy for making prudent provision for MRP:
- (i) General Fund Borrowing (pre 1<sup>st</sup> April 2008) - Provision to be made over the estimated average life of the asset (as at 1 April 2008) for which borrowing was taken - deemed to be 50 years (annuity calculation).
  - (ii) Calculations to compare this to the previous MRP charge indicated that between 2007-08 and 2015-16 the Council provided an additional £91.2m with which it will “un-wind” over 9 years from 2017-18.
  - (iii) General Fund Prudential Borrowing – Provision to be made over the estimated life of the asset for which borrowing is undertaken. Provision to commence in the year following purchase (annuity calculation). Where large loans are made to other bodies for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.
  - (iv) HRA Borrowing - Provision to be made for debt repayments equal to its share of any scheduled external debt repayments.
  - (v) PFI schemes - Provision to equal the part of the unitary payment that writes down the balance sheet liability, together with amounts relating to lifecycle costs incurred in the year.

**TREASURY MANAGEMENT INDICATORS**

Gross Debt and the Capital Financing Requirement (CFR)

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

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio.

It is recommended that the Council sets an upper limit on its fixed interest rate exposures for 2020-21, 2021-22 and 2022-23 of £708m, £759m, £803m of its net principal. It is further recommended that the Council sets an upper limit on its variable interest rate exposures for 2020-21, 2021-22 and 2022-23 of £100m of its net principal.

Maturity Structure of Borrowing

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

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

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

Total principal sums invested for periods longer than 364 days

The Council is not intending to invest sums for periods longer than 364 days.

## Appendix E



### Investment Strategy 2020/21

#### Introduction

The Authority invests its money for three broad purposes:

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

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

#### Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with Treasury Management guidance both from the Chartered Institute of Public Finance and Accountancy and MHCLG. Average cash balances in 2020/21 for the purpose of treasury management investment are expected to average £30m plus, with fluctuations between £20m and £50m.

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

**Further details:** Full details of the Authority's policies and its plan for 2020/21 for treasury management investments are covered in the treasury management strategy report 2020/21 to which this Investment Strategy is appended.

#### Service Investments: Loans

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

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

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

From 20/21 the Council is planning on providing significant development finance loans to support major town centre regeneration and economic growth, up to a Council approved £38m (per the 5 year Capital Plan 2020-21 to 2024-25), through a combination of Property Investment Fund (£25m) and HD-One Fund (£13m). Amounts have been set aside in the capital plan for this type of investment.

From 20/21 the Council is earmarking (up to £1m) to provide financial loans to support 3<sup>rd</sup> sector partners and anchor organisations. A further element (up to £1m) will be provided for loans and/or match funding in support of community asset transfers. The Council is underwriting this provision from within the existing earmarked property and other loan reserve.

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

**Table 1: Loans for service purposes in £ millions**

Category of borrower	31.3.2019 actual			2020/21
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Further education college	15.9	-0.6	15.3	<b>16.4</b>
Leeds City Region revolving investment fund	3.0	0.0	3.0	<b>4.2</b>
Local businesses and charities	0.8*	-0.1	0.7*	<b>40.8</b>
Local residents	2.2	0.0	2.2	<b>2.2</b>
<b>TOTAL</b>	<b>21.8</b>	<b>-0.7</b>	<b>21.1</b>	<b>63.6</b>

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

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

### **Risk assessment:**

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

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

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

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

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

### **Service Investments: Shares**

**Contribution:** The Council invests in the shares of local businesses to support local public services and stimulate local economic growth. The main share investment

(£0.9m) is a 9.9% holding in Kirklees School Services Ltd which operates 20 schools on our behalf on a 32 year contract under PFI. The council also has a 40% shareholding in KSDL, a 14% holding in in QED KMC Holdings Ltd (£0.3m) and a 50% shareholding in KHBP Ltd (£0.1m).

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

**Table 2: Shares held for service purposes in £ millions**

Category of company	31.3.2019 actual			2020/21
	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Local businesses	1.3	0.1	1.4	3.8

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

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

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

## **Commercial Investments: Property**

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

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

**Table 3: Property held for investment purposes in £ millions**

Property type	Actual	31.3.2019 actual		31.3.2020 expected	
	Purchase cost	Gains or (losses)	Fair value in accounts	Gains or (losses)	Value in accounts
Commercial Property	*See below	0.0	20.7	0.0	20.7

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

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

A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2019/20 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising there from.

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

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

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

### **Loan Commitments and Financial Guarantees**

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Authority and are included here for completeness. The Council does not have any loan commitments, however there are some guarantees that the Council holds including a guarantee on outstanding contributions to Pension Fund in the event of a default by certain bodies and a guarantee to the Homes & Communities Agency (HCA) in the event of a default by Kirklees Community Association (KCA) on the redevelopment of the Fieldhead Estate. The Council also act as a guarantor to a loan of £1.3m that KSDL hold in the event of default. Along with other YPO members, the Council are potential joint guarantors to a strategic acquisition loan to be taken out on YPO's behalf by Wakefield Council (currently subject to due diligence checks); the individual member share of the loan guarantee is likely to be up to £4.5m.

### **Capacity, Skills and Culture**

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

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

Cabinet is responsible for the implementation and monitoring of any Investment policy. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to Investment. Regular training for members of the Committee is provided by our treasury advisors to enable them to make decisions to ensure accountability and responsibility on investment decisions within the context of the

Council's corporate values. Any new investment decisions are also approved at full Council.

### **Investment Indicators**

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

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

**Table 5: Total investment exposure in £millions**

<b>Total investment exposure</b>	<b>31.03.2019 Actual</b>	<b>31.03.2020 Forecast</b>	<b>31.03.2021 Forecast</b>
Treasury management investments	39.1	30.0	30.0
Service investments: Loans	21.1	23.3	44.9
Service investments: Shares	1.4	1.4	1.4
Commercial investments: Property	20.7	20.7	20.7
<b>TOTAL INVESTMENTS</b>	<b>82.3</b>	<b>75.4</b>	<b>97.0</b>
Commitments to lend	0.0	0.0	0.0
Guarantees issued on loans	1.3	5.8	5.8
<b>TOTAL EXPOSURE</b>	<b>83.6</b>	<b>81.2</b>	<b>102.8</b>

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

**Table 6: Investments funded by borrowing in £m**

<b>Investments funded by borrowing</b>	<b>31.03.2019 Actual</b>	<b>31.03.2020 Forecast</b>	<b>31.03.2021 Forecast</b>
<b>Service investments: Loans</b>	<b>18.0</b>	<b>19.5</b>	<b>38.1</b>

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

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

<b>Investments net rate of return</b>	<b>2018/19 Actual</b>	<b>2019/20 Forecast</b>	<b>2020/21 Forecast</b>
Treasury management investments	0.7%	1.2%	1.3%
Service investments: Loans	0.5%	0.5%	0.5%
Service investments: Shares	None	None	None
Commercial investments	10.1%	10.0%	10.0%
<b>ALL INVESTMENTS</b>	<b>11.3%</b>	<b>11.7%</b>	<b>11.8%</b>



# Audit Progress Report and Sector Update

Kirklees Metropolitan Borough Council  
Year ending 31 March 2020

24 January 2020



# Contents

Section	Page
Introduction	3
Progress at January 2020	4
Audit Deliverables	6
Sector Update	7

# Introduction



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This paper provides the Corporate Governance and Audit Committee with a report on our 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; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Corporate Governance and Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

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

# Progress at January 2020

## Financial Statements Audit 2018/19

Our 2018/19 Financial Statements audit is substantively complete. As we have previously noted the Council has debt which is listed on the Stock Exchange and as such is a Public Interest Entity (PIE). As a PIE, there are certain regulatory requirements which both you and we need to meet, to ensure we comply with the Financial Reporting Council's (FRC) audit quality inspection and regulatory regime. As a firm, we are absolutely committed to meeting the expectations of the FRC with regards to audit quality and local government financial reporting. As such we have introduced a number of additional safeguards and layers of specialist review to ensure our audit and the Council's financial statements are of the high standard expected by the FRC. We are currently completing the final stages of these quality assurance procedures and are looking to formally conclude the audit as soon as we are able to. Looking ahead we are as a firm engaging with the FRC and the Redmond Review to help ensure the audit regime going forward is both effective and fit for purpose. We are arranging a meeting with the Council's Service Director – Finance so that senior representatives from the firm can update you on the ongoing national discussions.

## Financial Statements Audit 2019/20

We have begun our planning for the 2019/20 audit and will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

Our interim audit is in progress and includes :

- Review of the Council's control environment
- Updating our understanding of the Council's financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

We will report the findings from our interim audit in our next progress report, which we will present to the Corporate Governance and Audit Committee on 6 March 2020.

## 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 will be included in our Audit Plan, which we will present to Corporate Governance and Risk Committee on 6 March 2020.

The NAO is consulting on a new Code of Audit Practice from 2020 which proposes to make significant changes to Value for Money work. Please see page 9 for more details.

# Progress at January 2020 (Cont.)

## 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 claim was completed on 29 November 2019, in advance of the 30 November deadline.

We also certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2018/19 claim was completed on 29 November, in advance of the deadline.

We also certify the Council's annual Teachers' Training return in accordance with procedures agreed with the Department for Education. The certification work for the 2018/19 claim was completed on 20 December 2019, in advance of the 31 December deadline.

Our work on the Council's Pooling of Housing Capital receipts return is in progress and we expect to complete this certification work required by the Ministry of Housing Communities and Local Government ahead of 7 February deadline.

### Meetings

We continue to meet with Finance Officers to discuss audit progress, emerging financial reporting 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 have been invited to our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

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 Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular the valuation property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Corporate Governance and Audit Committee.

# Audit Deliverables

## 2018/19 Deliverables

	Planned Date	Status
<b>Audit Findings Report</b> The draft Audit Findings Report was reported to the July Corporate Governance and Audit Committee. Our final Audit Findings report will be shared on completion of the audit.	July 2019	Draft provided Final version delayed
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Delayed
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	August 2019	Delayed

## 2019/20 Deliverables

	Planned Date	Status
<b>Fee Letter</b> Confirming audit fee for 2018/19.	April 2019	Complete
<b>Accounts Audit Plan</b> 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 2019-20 financial statements.	March 2020	Not yet due
<b>Interim Audit Findings</b> We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Not yet due
<b>Audit Findings Report</b> The Audit Findings Report will be reported on completion of our 2019/20 audit.	TBC	Not yet due
<b>Auditors Report</b> This is the opinion on your financial statement, annual governance statement and value for money conclusion.	TBC	Not yet due
<b>Annual Audit Letter</b> This letter communicates the key issues arising from our work.	TBC	Not yet due

# Sector Update

Councils continue to try 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 local government sector 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

# MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in early 2020, with a final report published later in 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny





# National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. ‘Relevant authorities’ are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

## Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

**Stage 1** involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

**This stage of the consultation is now closed.** The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

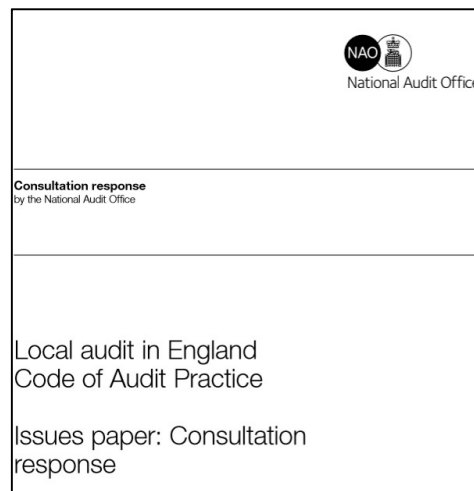
**Stage 2** of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation closed on 22 November 2019. The new Code will apply from audits of local bodies’ 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>



# Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

## The reporting environment

The FRC notes that, “In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty.” These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

## Critical judgements and estimates

The FRC wrote “More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions.” Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

## IFRS 16 Leases

The FRC letter notes “IFRS 16 is effective for periods beginning on or after 1 January 2019. We recently conducted a thematic review looking at how companies reported on their adoption of the new standard in their June 2019 interim accounts. In advance of our detailed findings which will be published shortly, I set out what we expect to see by way of disclosures in the forthcoming accounts, drawing on the results of our work.

- Clear explanation of the key judgements made in response to the new reporting requirements;
- Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year;
- Clear identification of practical expedients used on transition and accounting policy choices; and
- Well explained reconciliation, where necessary, of operating lease commitments under IAS 17, ‘Leases’, the previous standard and lease liabilities under IFRS 16.”

The implementation of IFRS is delayed until 1 April 2020 in the public sector when it will replace IAS 17 Leases and the three interpretations that supported its application. Authorities will need information and processes in place to enable them to comply with the requirements. They will need to make disclosures in the 2019/20 accounts about the impact of IFRS 16 in accordance with IAS 8/ Code 3.3.4.3 requirements for disclosure about standards which are issued but are not yet effective.

## Financial Reporting



### Challenge question:

Will you have the opportunity to review and comment on your authority’s statement of accounts before they are published at the end of May?



# What is the future for local audit?

Paul Dossett, Head of local government at Grant Thornton, has written in the Municipal Journal “Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it’s critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future.”

Paul goes on to write “Local (local authority and NHS) audit has been a key part of the oversight regime for public services for more than a century. The National Audit Office (NAO) has exercised this role in central government for several generations and their reporting to Parliament via the Public Accounts Committee is a key part of the public spending accountability framework.

Local audit got a significant boost with the creation of the Audit Commission in 1983 which provided a coordinated, high profile focus on local government and (from 1990) NHS spending and performance at a local level. Through undertaking value for money reviews and maintaining a tight focus on the generational governance challenges, such as rate capping in the 1980s and service governance failings in the 1990s, the Commission provided a robust market management function for the local audit regime. Local audit fees, appointments, scope, quality and relevant support for auditors all fell within their ambit.

However, the Commission was ultimately deemed, among other things, to be too expensive and was abolished in 2010, as part of the Coalition Government’s austerity saving plans. While the regime was not perfect, and the sector had acknowledged that reform of the Commission was needed, complete abolition was not the answer.

Since then, there has been no body with complete oversight of the local audit regime and how it interacts with local public services. The Ministry of Housing, Communities and Local Government; Department of Health; NHS; NAO; Local Government Association (LGA); Public Sector Audit Appointments Ltd (PSAA); the Financial Reporting Council (FRC); the Chartered Institute of Public Finance & Accountancy (CIPFA), audit firms and the audited bodies themselves all have an important role to play but, sometimes, the pursuit of individual organisational objectives has resulted in sub-optimal and even conflicting outcomes for the regime overall.

These various bodies have pursued separate objectives in areas such as audit fee reduction, scope of work, compliance with commercial practice, earlier reporting deadlines and mirroring commercial accounting conventions – to name just a few.

This has resulted in a regime that no stakeholder is wholly satisfied with and one that does not ensure local audit is providing a sufficiently robust and holistic oversight of public spending.

To help provide a more cohesive and co-ordinated approach within the sector, we believe that new oversight arrangements should be introduced. These would have ultimate responsibility for ensuring the sustainability of the local audit regime and that its component parts – including the Audit Code, regulation, market management and fees – interact in an optimal way. While these arrangements do not need to be another Audit Commission, we need to have a strategic approach to addressing the financial sustainability challenges facing local government and the NHS, the benchmarking of performance and the investigation of governance failings.

There are a number of possible solutions including:

- 1) The creation of a new arm’s length agency with a specific remit for overseeing and joining up local audit. It would provide a framework to ensure the sustainability of the regime, covering fees, appointments, and audit quality. The body would also help to create a consistent voice to government and relevant public sector stakeholders on key issues arising from the regime. Such a body would need its own governance structure drawn from the public sector and wider business community; and
- 2) Extending the current remit of the NAO. Give it total oversight of the local audit regime and, in effect, establish a local audit version of the NAO, with all the attendant powers exercised in respect of local audit. In this context, there would be a need to create appropriate governance for the various sectors, similar to the Public Accounts Committee.

While the detail of the new arrangements would be up for debate, it’s clear that a new type of oversight body, with ultimate responsibility for the key elements of local audit, is needed. It would help to provide much-needed cohesion across the sector and between its core stakeholders.

The online article is available here:

<https://www.themj.co.uk/What-is-the-future-for-audit/214769>

# Grant Thornton's Sustainable Growth Index Report

Grant Thornton has launched the Sustainable Growth Index (formerly the Vibrant Economy Index) – now in its third year. The Sustainable Growth Index seeks to define and measure the components that create successful places. Our aim in establishing the Index was to create a tool to help frame future discussions between all interested parties, stimulate action and drive change locally. We have undergone a process of updating the data for English Local Authorities on our online, interactive tool, and have produced an updated report on what the data means. All information is available on our online hub, where you can read the new report and our regional analyses.

The Sustainable Growth Index provides an independent, data-led scorecard for each local area that provides:

- businesses with a framework to understand their local economy and the issues that will affect investment decisions both within the business and externally, a tool to support their work with local enterprise partnerships, as well as help inform their strategic purpose and CSR plans in light of their impact on the local social and economic environment
- policy-makers and place-shapers with an overview of the strengths, opportunities and challenges of individual places as well as the dynamic between different areas
- Citizens with an accessible insight into how their place is doing, so that they can contribute to shaping local discussions about what is important to them

The Index shows the 'tip of the iceberg' of data sets and analysis our public services advisory team can provide our private sector clients who are considering future locations in the UK, or wanting to understand the external drivers behind why some locations perform better than others.

Our study looks at over 50 indicators to evaluate all the facets of a place and where they excel or need to improve.

Our index is divided into six baskets. These are:

- 1 Prosperity
- 2 Dynamism and opportunity
- 3 Inclusion and equality
- 4 Health, wellbeing and happiness
- 5 Resilience and sustainability
- 6 Community trust and belonging

This year's index confirms that cities have a consistent imbalance between high scores related to prosperity, dynamism and opportunity, and low scores for health, wellbeing, happiness inclusion and equality. Disparity between the richest and poorest in these areas represents a considerable challenge for those places.

Inclusion and equality remains a challenge for both highly urban and highly rural places and coastal areas, particularly along the east coast from the North East to Essex and Kent, face the most significant challenges in relation to these measures and generally rank below average.

Creating sustainable growth matters and to achieve this national policy makers and local authorities need to do seven things:

- 1 Ensure that decisions are made on the basis of robust local evidence.
- 2 Focus on the transformational trends as well as the local enablers
- 3 Align investment decisions to support the creation of sustainable growth
- 4 Align new funding to support the creation of sustainable growth
- 5 Provide space for innovation and new approaches
- 6 Focus on place over organisation
- 7 Take a longer-term view

The online report is available here:

<https://www.granthornton.co.uk/en/insights/sustainable-growth-index-how-does-your-place-score/>



# Institute for Fiscal Studies – English local government funding: trends and challenges in 2019 and beyond

The Institute for Fiscal Studies (IFS) has found “The 2010s have been a decade of major financial change for English local government. Not only have funding levels – and hence what councils can spend on local services – fallen significantly; major reforms to the funding system have seen an increasing emphasis on using funding to provide financial incentives for development via initiatives such as the Business Rates Retention Scheme (BRRS) and the New Homes Bonus (NHB).”

The IFS goes on to report “Looking ahead, increases in council tax and additional grant funding from central government mean a boost to funding next year – but what about the longer term, especially given plans for further changes to the funding system, including an expansion of the BRRS in 2021–22?”

This report, the first of what we hope will be an annual series of reports providing an up-to-date analysis of local government, does three things in this context. First, it looks in detail at councils’ revenues and spending, focusing on the trends and choices taken over the last decade. Second, it looks at the outlook for local government funding both in the short and longer term. And third, it looks at the impact of the BRRS and NHB on different councils’ funding so far, to see whether there are lessons to guide reforms to these policies.

The report focuses on those revenue sources and spending areas over which county, district and single-tier councils exercise real control. We therefore exclude spending on police, fire and rescue, national park and education services and the revenues specifically for these services. When looking at trends over time, we also exclude spending on and revenues specifically for public health, and make some adjustments to social care spending to make figures more comparable across years. Public health was only devolved to councils in 2013–14 and the way social care spending is organised has also changed, with councils receiving a growing pot of money from the NHS to help fund services.”

The IFS reports a number of key facts and figures, including

- 1) Cuts to funding from central government have led to a 17% fall in councils’ spending on local public services since 2009–10 – equal to 23% or nearly £300 per person.
- 2) Local government has become increasingly reliant on local taxes for revenues.
- 3) Councils’ spending is increasingly focused on social care services – now 57% of all service budgets.

The IFS report is available on their website below:

<https://www.ifs.org.uk/publications/14563>







**Name of meeting:** CORPORATE GOVERNANCE & AUDIT COMMITTEE  
**Date:** 24<sup>th</sup> JANUARY 2020  
**Title of report:** QUARTERLY REPORT OF INTERNAL AUDIT Q3 2019/20 & OCTOBER 2019- DECEMBER 2019

**Purpose of report;**  
**To provide information about internal audit work in quarter 3 of 2019/20**

<b>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?</b>	not applicable
<b>Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)</b>	not applicable
<b>The Decision - Is it eligible for call in by Scrutiny?</b>	not applicable
<b>Date signed off by Strategic Director &amp; name</b>	not applicable
<b>Is it also signed off by the Service Director for Finance IT and Transactional Services?</b>	not applicable
<b>Is it also signed off by the Service Director for Legal Governance and Commissioning Support?</b>	not applicable
<b>Cabinet member portfolio</b>	not applicable

**Electoral wards affected:** All

**Ward councillors consulted:** None

**Public or private:** Public with a private appendix

The appendix to this report is recommended for consideration in private because the information contained in it is exempt information within part 1 of Schedule 12A of the Local Government Act 1972 namely that the report contains information relating to the financial or business affairs of any particular person (including the authority holding that information). The public interest in maintaining the exemption outweighs the public interest in disclosing the information and providing greater openness in the Council's decision making.

**Have you considered GDPR?** Yes

## 1. Summary

- 1.1 This report sets out the activities of Internal Audit in the third quarter of 2019/20. This report contains information about 22 formal opinion based pieces of work and various other projects or tasks. Work associated with Kirklees Neighbourhood Housing is now reported along with all other work.

- 1.2 Of the 22 reports that include assurance levels were three new areas where the activity was rated as providing limited assurance; this related to direct payments for care service recipients- where there is inadequate monitoring, and two other areas where there was inadequate records keeping- in relation to petty cash and software licensing. Area where arrangements were at least adequate included; agency labour (where spending with agencies has reduced very substantially, and almost all expenditure is now with approved providers, albeit there is scope to improve the evidence of time spent by agency staff), commercial leases, highways structures, catering procurements and gifts and hospitality (council and KNH).
- 1.3 Six schools were visited; all had adequate or substantial assurance in their business processes.
- 1.4 There were 3 follow ups; two had made the promised progress- a school, and social care income- but there was still a need for progress in relation to the improvement of training records.
- 1.5 Overall, 84% of new work in the period attracted a positive outcome. Including follow ups there was an overall in period assurance rate of 82%, and the cumulative year to date is 80% is positive assurance. The target is 80%; last year the outcome was 78%.
- 1.6 Time was also spent ensuring progress in relation to IT network access and security, in support of the external auditor, information governance, monthly pay, stronger families, and parentpay- the school meals and other income collection system. One long ongoing investigation at KNH is now almost complete, and another has reached initial report stage.
- 1.7 Progress in relation to the Annual Governance Statement (AGS) Action Plan is monitored by Internal Audit. Although this is monitored quarterly, starting at quarter 2, progress to the end of the calendar year will be reported separately-to the March 2020 meeting of this committee.
- 1.8 It was agreed at March 2018 Council that this committee consider any surveillance activities under the Regulation of Investigatory Powers Act 2000. There are none this quarter.

## 2. Information required to take a decision

- 2.1 The detail of the audit work performed this quarter is contained within the private Appendix.

## 3. Implications for the Council

- 3.1 **Working with People** – None directly
- 3.2 **Working with Partners** – None directly
- 3.3 **Place Based Working** – None directly
- 3.4 **Improving outcomes for children**– None directly
- 3.5 **Climate change and air quality**- None directly
- 3.6 **Other (eg Legal/Financial or Human Resources)**- Although each of the sub categorisations above suggest no direct implications, the work of internal audit covers all aspects of the Council's operations, including elements of the above, either specifically, indirectly or on a commissioned basis. The main issues relate to those areas highlighted above- where there are risks associated with basic processing arrangements, and delivering sound governance and control.

## 4. Consultees and their opinions

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



**5. Next steps and timelines**

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

**6. Officer recommendations and reasons**

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

6.2 Members are also asked to note that there has been no Regulation of Investigatory Powers Act activity during the period quarter 3 2019/20.

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

Not applicable

**8. Contact officer**

Martin Dearnley, Head of Risk & Internal Audit (01484 221133 x73672)

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

Previous Quarterly reports, Audit Plan and confidential appendix.

**10. Service Director responsible**

Not applicable

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