



Agenda for a meeting of the Governance and Audit Committee to be held on Thursday, 30 November 2017 at 10.00 am in Committee Room 3 - City Hall, Bradford

Members of the Committee – Councillors

CONSERVATIVE	LABOUR	LIBERAL DEMOCRAT AND INDEPENDENT
M Pollard	Johnson Thornton Swallow	Reid

Alternates:

CONSERVATIVE	LABOUR	LIBERAL DEMOCRAT AND INDEPENDENT
Ellis	Farley Watson	J Sunderland

Notes:

- This agenda can be made available in Braille, large print or tape format on request by contacting the Agenda contact shown below.
- The taking of photographs, filming and sound recording of the meeting is allowed except if Councillors vote to exclude the public to discuss confidential matters covered by Schedule 12A of the Local Government Act 1972. Recording activity should be respectful to the conduct of the meeting and behaviour that disrupts the meeting (such as oral commentary) will not be permitted. Anyone attending the meeting who wishes to record or film the meeting's proceedings is advised to liaise with the Agenda Contact who will provide guidance and ensure that any necessary arrangements are in place. Those present who are invited to make spoken contributions to the meeting should be aware that they may be filmed or sound recorded.
- If any further information is required about any item on this agenda, please contact the officer named at the foot of that agenda item.

From:

Parveen Akhtar
City Solicitor

Agenda Contact: Fatima Butt - 01274 432227

Phone: 01274 432227

E-Mail: fatima.butt@bradford.gov.uk

To:

A. PROCEDURAL ITEMS

1. ALTERNATE MEMBERS (Standing Order 34)

The City Solicitor will report the names of alternate Members who are attending the meeting in place of appointed Members.

2. DISCLOSURES OF INTEREST

(Members Code of Conduct - Part 4A of the Constitution)

To receive disclosures of interests from members and co-opted members on matters to be considered at the meeting. The disclosure must include the nature of the interest.

An interest must also be disclosed in the meeting when it becomes apparent to the member during the meeting.

Notes:

- (1) Members may remain in the meeting and take part fully in discussion and voting unless the interest is a disclosable pecuniary interest or an interest which the Member feels would call into question their compliance with the wider principles set out in the Code of Conduct. Disclosable pecuniary interests relate to the Member concerned or their spouse/partner.*
- (2) Members in arrears of Council Tax by more than two months must not vote in decisions on, or which might affect, budget calculations, and must disclose at the meeting that this restriction applies to them. A failure to comply with these requirements is a criminal offence under section 106 of the Local Government Finance Act 1992.*
- (3) Members are also welcome to disclose interests which are not disclosable pecuniary interests but which they consider should be made in the interest of clarity.*
- (4) Officers must disclose interests in accordance with Council Standing Order 44.*

3. MINUTES

Recommended –

That the minutes of the meeting held on 28 September 2017 be signed as a correct record (previously circulated).

(Fatima Butt – 01274 432227)

4. **INSPECTION OF REPORTS AND BACKGROUND PAPERS**

(Access to Information Procedure Rules – Part 3B of the Constitution)

Reports and background papers for agenda items may be inspected by contacting the person shown after each agenda item. Certain reports and background papers may be restricted.

Any request to remove the restriction on a report or background paper should be made to the relevant Strategic Director or Assistant Director whose name is shown on the front page of the report.

If that request is refused, there is a right of appeal to this meeting.

Please contact the officer shown below in advance of the meeting if you wish to appeal.

(Fatima Butt - 01274 432227)

B. BUSINESS ITEMS

5. **LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN - REVIEW OF LOCAL GOVERNMENT COMPLAINTS 2016/17**

The Assistant Director (Chief Executives Office) will submit **Document “N”** which summarises the number of complaints and investigations undertaken by the Ombudsman for the year ending 31 March 2017 and compares Bradford’s performance against that of other local authorities.

Recommended-

That the Committee takes assurance from the result of the Local Government and Social Care Ombudsman’s Annual Review of Local Government Complaints 2016/17, that the Authorities complaints process is overall satisfactory.

(Irina Arcas – 01274 435269)

6. **MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) JOINT ADVISORY GROUP HELD ON 27 JULY 2017**

The Council’s Financial Regulations require the minutes of meeting of the WYPF Joint Advisory Group be submitted to this committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund will submit **Document “O”** which reports on the minutes of the meeting of the WYPF Joint Advisory Group held on 27 July 2017.

Recommended –

That the minutes of the West Yorkshire Pension Fund Joint Advisory Group held on 27 July 2017 be considered.

(Rodney Barton – 01274 432317)

7. EXCLUSION OF THE PUBLIC

The Committee is asked to consider if the item relating to the minutes of the meeting of the West Yorkshire Pension Fund Investment Advisory Panel meeting held on 27 July 2017 should be considered in the absence of the public and, if so, to approve the following recommendation:

Recommended –

That the public be excluded from the meeting during the consideration of the items relating to minutes of the West Yorkshire Pension Fund Investment Advisory Panel meeting held on 27 July 2017 because the information to be considered is exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972. It is also considered that it is in the public interest to exclude public access to this item.

8. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 27 JULY 2017

The Council's Financial Regulations require the minutes of meetings of the WYPF be submitted to this Committee.

In accordance with this requirement, the Director of West Yorkshire Pension Fund will submit **Not for Publication Document "P"** which reports on the minutes of the meeting of the WYPF Investment Advisory Panel held on 27 July 2017.

Recommended –

That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 27 July 2017 be considered.

(Rodney Barton – 01274 432317)

9. ANNUAL TREASURY MANAGEMENT REPORT 2016/17

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17.

The Strategic Director, Corporate Services will submit **Document “Q”** which reports on the Council’s Treasury Management activities for the year ending 31 March 2017.

Recommended-

That the report be noted and referred to Council for adoption.

(David Willis – 01274 432361)

10. TREASURY MANAGEMENT MID YEAR REVIEW UP TO 30 SEPTEMBER 2017

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties, providing adequate liquidity initially before considering investment return.

The Strategic Director, Corporate Services will submit **Document “R”** which shows the Council’s Treasury Mid Year Review up to 30 September 2017.

Recommended-

That the changes to the Treasury policy set out in section 2.6. of Document “R” be noted and referred to Council for adoption.

(David Willis – 01274 432361)

11. INTERNAL AUDIT PLAN 2017/18 - MONITORING REPORT AS AT 30 SEPTEMBER 2017

The Strategic Director, Corporate Services will submit **Document “S”** which monitors the progress made by Internal Audit against the Internal Audit Plan for 2017/18 as at 30 September 2017.

The purpose of the report is to bring to the attention of members of the Governance and Audit Committee (G&AC) any significant issues arising from the audit work undertaken to date and to inform them about the progress made up to 30 September 2017, against the Internal Audit Plan, which was approved by the Committee on 25 April 2017.

Recommended-

That the Committee:

- (1) Takes assurance from the results to date that show that the control environment of the authority is overall satisfactory.**
- (2) Endorse the anticipated coverage and changes of Internal Audit work during the year.**
- (3) Requires Internal Audit to monitor the control environment and continues to assess areas of control weakness and the ability of management to deliver improvements to the control environment when required.**
- (4) Requires Internal Audit to monitor its resourcing levels to ensure that they are sufficient and appropriate to support an effective Internal Audit function.**

(Mark St Romaine – 01274 432888)

12. CODE OF CORPORATE GOVERNANCE

Corporate Governance comprises the systems and processes, cultures and values by which the Council is directed and controlled and through which it engages with and leads the community.

The Strategic Director, Corporate Services will submit **Document “T”** which reports on the Code of Corporate Governance that sets out how the Council will meet and demonstrate its commitment to good Corporate Governance.

Recommended-

- (1) That the amended and updated Code of Corporate Governance be approved and adopted by the Council.**
- (2) That it be noted that the amended code will be used to help test the effectiveness of the Council’s Governance Arrangements in order to inform the production of the Annual Governance Statement.**

(Mark St Romaine – 01274 434257)



Report of the Assistant Director of the Chief Executives Office to the meeting of Governance and Audit Committee to be held on 30 November 2017.

N

Subject:

Local Government and Social Care Ombudsman - Review of Local Government Complaints 2016/17

Summary statement:

Following receipt of the Annual Review Letter from the Local Government and Social Care Ombudsman, this report summarises the number of complaints and investigations undertaken by the Ombudsman for the year ended 31 March 2017 and compares Bradford's performance against that of other local authorities.

Alison Milner
Assistant Director
Office of the Chief Executive

Portfolio:
Corporate

Report Contact: Irina Arcas
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Overview & Scrutiny Area:
Corporate





1. SUMMARY

Following receipt of the Annual Review Letter from the Local Government and Social Care Ombudsman (LGO), this report summarises the number of complaints and investigations undertaken by the Ombudsman for the year ended 31 March 2017 and compares Bradford's performance against that of other local authorities.

2. BACKGROUND

The LGO was established under the Local Government Act 1974 which defines the main statutory functions for the Ombudsman as

- to investigate complaints against councils and some other authorities
- to investigate complaints about adult social care providers from people who arrange or fund their adult social care (Health Act 2009)
- to provide advice and guidance on good administrative practice

Its main activity under the Act is the investigation of complaints, which it states is limited to complaints from members of the public alleging they have suffered injustice as a result of maladministration and/or service failure. Under Part IIIA the Ombudsman investigates complaints from people who allege they have suffered injustice as a result of action by adult social care providers.

The Ombudsman's jurisdiction covers all local authorities (excluding town and parish councils); police and crime bodies; school admission appeal panels and a range of other bodies providing local services. The vast majority of the complaints the Ombudsmen receive concern the actions of local authorities and adult social care providers are within the LGO's jurisdiction.

The Regulatory Reform (Collaboration etc between Ombudsmen) Order 2007 amended the 1974 Act and clarified the powers of the LGO and the Parliamentary and Health Service Ombudsman (PHSO) to work together. With the consent of the complainant the Ombudsman can share information, carry out joint investigations and produce joint reports where complaints fall within the remit of both Ombudsman schemes. In practice, the Ombudsmen consider and agree proposals to conduct joint investigations where the matters complained about are so closely linked that a joint investigation leading to the production of a joint conclusion and proposed remedy in one report is judged to be the most effective means of reaching a decision on maladministration and injustice.

3. OTHER CONSIDERATIONS

- 3.1 Each year the LGO provides its Annual Review Letter to each Authority (Appendix 1) detailing the annual summary of statistics on the complaints made to its office. The data provided shows the complaints and enquiries it has recorded, along with the decisions it has made and whilst the number of complaints will not, by itself, give a clear picture of how well those complaints are being responded to they do allow for comparisons to be made with authorities of a similar size.



- 3.2 The Review of Local Government Complaints 2016/17 identifies that the LGO received a total of 120 new complaints and enquiries about Bradford between 1 April 2016 and 31 March 2017 compared to 113 in the previous year. A breakdown across Services is detailed below:

Service Area	2014/15	2015/16	2016/17
Adult Social Care	19	18	12
Benefits and Council Tax	19	21	21
Corporate and other Services	12	12	8
Education and Children's Services	21	19	31
Environmental Services and Public Protection	12	12	12
Highways and Transport	18	14	18
Housing	2	4	5
Planning and Development	19	12	13
Other	0	1	0
Total	122	113	120

Upon receipt of a complaint the LGO will initially approach the Local Authority to ascertain the status of the complaint. The LGO will normally only accept complaints if the complainant has exhausted the Councils own internal complaint process. In 2016/17 the LGO made 120 decisions in relation to complaints about Bradford compared to 116 the previous year. Of the 120 decisions made in 2016/17, 61 (50.8%) were referred back to the Council for local resolution and 26 (21.6%) were closed by the LGO after its initial enquiries. 8 (6.7%) complaints were considered incomplete, invalid or other advice was provided.

- 3.3 During the period in question 23 complaints (28 in 2015/16) were subject to a detailed investigation carried out by the LGO. 11 of those complaints were not upheld with 12 being upheld i.e. 10% of the total complaints received by the LGO were upheld compared to 10.6% in 2015/16. A breakdown across service area of those subject to a formal investigation is below. The figures in brackets are those for 2015/16.

Service Area	Upheld	Not Upheld
Adult Social Care	8 (3)	4 (4)
Benefits and Council Tax	- (3)	1 (1)
Corporate and other Services	1 (-)	- (2)
Education and Children's Services	2 (2)	3 (2)
Environmental Services and Public Protection	- (3)	- (1)
Highways and Transport	1 (-)	1 (1)
Housing	- (-)	- (-)
Planning and Development	- (1)	2 (5)
Total	12 (12)	11 (16)



Across the Country the LGO registered in excess of 16,722 (19,700 in 2015/16) complaints and enquiries and upheld 54% of complaints where it carried out a detailed investigation, an increase of 3% on last year. In 2016/17 the 52% of the 21 Bradford complaints which were upheld following a detailed investigation by the LGO compares favourably with the 54% national comparator, the West Yorkshire comparator of 54.5% and the Yorkshire and Humber comparator of 53.46%.

In terms of percentage of upheld cases against the overall number of complaints the LGO received, again Bradford (10%) compared favourably with the national comparator (13.74%), was ranked the highest against the West Yorkshire comparators which averaged at 16.54% and 3rd best in the Yorkshire and Humber region which averaged 13.58%.

- 3.4 Learning from complaints - Complaints provide senior managers with useful information in respect of the way that services are delivered. Under the Complaints Procedure and where necessary the delivery of recommendations or corrective actions are monitored through Action Plans agreed with the service manager affected, particularly in relation to complaint findings from LGO investigations.
- 3.5 Guidance from the LGO in relation to Council complaints processes suggests that as part the final response provided by the authority in question to a complainant, the complainant should be directed to the LGO as the body which can carry out an independent review of their complaint if they remain dissatisfied by the Councils response. The LGO review found that nationally a significant percentage of people were still not being told that they could approach the LGO for an independent opinion, whereas in Bradford, a standard paragraph is included in all final responses to complainants which contains all the necessary contact details for the LGO.

4. FINANCIAL & RESOURCE APPRAISAL

The cost of investigating and supporting complaints and enquiries from the LGO is included in the Councils base budget and does not incur any additional costs to the Council.

In four of the twelve cases where the LGO undertook a formal investigation and upheld the complaint, the LGO recommended compensation and other payments to complainants totalling £2,000, the cost of which is borne by Service Departments from within the base budget.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

The LGO's review suggests that overall the numbers of complaints is increasing and Councils have less resource available to manage them. However, the overall number of complaints considered by the LGO for Bradford has been similar across the last three years and of those where the LGO carried out a detailed investigation, the number which result in a complaint being upheld is also the same.



6. LEGAL APPRAISAL

There are no specific legal issues in relation to the 2016/17 annual report arising within this report.

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

There are no direct equal rights implications. All decisions on complaint investigations are made on the individual facts of the case taking into account the Council's Code of Practice for dealing with Complaints, the Public Health, the Children's Social Care and the Health and Adult Social Care complaints procedures.

7.2 SUSTAINABILITY IMPLICATIONS

There are no sustainability implications.

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

There are no impacts on Gas Emissions.

7.4 COMMUNITY SAFETY IMPLICATIONS

There are no impacts on Community Safety.

7.5 HUMAN RIGHTS ACT

There are no impacts in relation to the Human Rights Act.

7.6 TRADE UNION

There are no Trade Union implications.

7.7 WARD IMPLICATIONS

There are no impacts on Gas Emissions.

7.8 AREA COMMITTEE ACTION PLAN IMPLICATIONS (for reports to Area Committees only)

There are no impacts on Gas Emissions.

8. NOT FOR PUBLICATION DOCUMENTS

None



9. OPTIONS

There are no options to consider

10. RECOMMENDATIONS

- 10.1 That the Governance and Audit Committee takes assurance from the result of the Local Government and Social Care Ombudsman's Annual Review of Local Government Complaints 2016/17, that the Authorities complaints process is overall satisfactory.

11. APPENDICES

Appendix 1 - Annual Review Letter

12. BACKGROUND DOCUMENTS

None



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20 July 2017

By email

Kersten England
Chief Executive
City Of Bradford Metropolitan District Council

Dear Kersten England,

Annual Review letter 2017

I write to you with our annual summary of statistics on the complaints made to the Local Government and Social Care Ombudsman (LGO) about your authority for the year ended 31 March 2017. The enclosed tables present the number of complaints and enquiries received about your authority and the decisions we made during the period. I hope this information will prove helpful in assessing your authority's performance in handling complaints.

The reporting year saw the retirement of Dr Jane Martin after completing her seven year tenure as Local Government Ombudsman. I was delighted to be appointed to the role of Ombudsman in January and look forward to working with you and colleagues across the local government sector in my new role.

You may notice the inclusion of the '*Social Care Ombudsman*' in our name and logo. You will be aware that since 2010 we have operated with jurisdiction over all registered adult social care providers, able to investigate complaints about care funded and arranged privately. The change is in response to frequent feedback from care providers who tell us that our current name is a real barrier to recognition within the social care sector. We hope this change will help to give this part of our jurisdiction the profile it deserves.

Complaint statistics

Last year, we provided for the first time statistics on how the complaints we upheld against your authority were remedied. This year's letter, again, includes a breakdown of upheld complaints to show how they were remedied. This includes the number of cases where our recommendations remedied the fault and the number of cases where we decided your authority had offered a satisfactory remedy during the local complaints process. In these latter cases we provide reassurance that your authority had satisfactorily attempted to resolve the complaint before the person came to us.

We have chosen not to include a 'compliance rate' this year; this indicated a council's compliance with our recommendations to remedy a fault. From April 2016, we established a new mechanism for ensuring the recommendations we make to councils are implemented, where they are agreed to. This has meant the recommendations we make are more specific, and will often include a time-frame for completion. We will then follow up with a council and seek evidence that recommendations have been implemented. As a result of this new process, we plan to report a more sophisticated suite of information about compliance and service improvement in the future.

This is likely to be just one of several changes we will make to our annual letters and the way we present our data to you in the future. We surveyed councils earlier in the year to find out, amongst other things, how they use the data in annual letters and what data is the most useful; thank you to those officers who responded. The feedback will inform new work to

provide you, your officers and elected members, and members of the public, with more meaningful data that allows for more effective scrutiny and easier comparison with other councils. We will keep in touch with you as this work progresses.

I want to emphasise that the statistics in this letter comprise the data we hold, and may not necessarily align with the data your authority holds. For example, our numbers include enquiries from people we signpost back to the authority, but who may never contact you.

In line with usual practice, we are publishing our annual data for all authorities on our website. The aim of this is to be transparent and provide information that aids the scrutiny of local services.

The statutory duty to report Ombudsman findings and recommendations

As you will no doubt be aware, there is duty under section 5(2) of the Local Government and Housing Act 1989 for your Monitoring Officer to prepare a formal report to the council where it appears that the authority, or any part of it, has acted or is likely to act in such a manner as to constitute maladministration or service failure, and where the LGO has conducted an investigation in relation to the matter.

This requirement applies to all Ombudsman complaint decisions, not just those that result in a public report. It is therefore a significant statutory duty that is triggered in most authorities every year following findings of fault by my office. I have received several enquiries from authorities to ask how I expect this duty to be discharged. I thought it would therefore be useful for me to take this opportunity to comment on this responsibility.

I am conscious that authorities have adopted different approaches to respond proportionately to the issues raised in different Ombudsman investigations in a way that best reflects their own local circumstances. I am comfortable with, and supportive of, a flexible approach to how this duty is discharged. I do not seek to impose a proscriptive approach, as long as the Parliamentary intent is fulfilled in some meaningful way and the authority's performance in relation to Ombudsman investigations is properly communicated to elected members.

As a general guide I would suggest:

- Where my office has made findings of maladministration/fault in regard to routine mistakes and service failures, and the authority has agreed to remedy the complaint by implementing the recommendations made following an investigation, I feel that the duty is satisfactorily discharged if the Monitoring Officer makes a periodic report to the council summarising the findings on all upheld complaints over a specific period. In a small authority this may be adequately addressed through an annual report on complaints to members, for example.
- Where an investigation has wider implications for council policy or exposes a more significant finding of maladministration, perhaps because of the scale of the fault or injustice, or the number of people affected, I would expect the Monitoring Officer to consider whether the implications of that investigation should be individually reported to members.
- In the unlikely event that an authority is minded not to comply with my recommendations following a finding of maladministration, I would always expect the Monitoring Officer to report this to members under section five of the Act. This is an exceptional and unusual course of action for any authority to take and should be considered at the highest tier of the authority.

The duties set out above in relation to the Local Government and Housing Act 1989 are in addition to, not instead of, the pre-existing duties placed on all authorities in relation to Ombudsman reports under The Local Government Act 1974. Under those provisions, whenever my office issues a formal, public report to your authority you are obliged to lay that report before the council for consideration and respond within three months setting out the action that you have taken, or propose to take, in response to the report.

I know that most local authorities are familiar with these arrangements, but I happy to discuss this further with you or your Monitoring Officer if there is any doubt about how to discharge these duties in future.

Manual for Councils

We greatly value our relationships with council Complaints Officers, our single contact points at each authority. To support them in their roles, we have published a Manual for Councils, setting out in detail what we do and how we investigate the complaints we receive. When we surveyed Complaints Officers, we were pleased to hear that 73% reported they have found the manual useful.

The manual is a practical resource and reference point for all council staff, not just those working directly with us, and I encourage you to share it widely within your organisation. The manual can be found on our website www.lgo.org.uk/link-officers

Complaint handling training

Our training programme is one of the ways we use the outcomes of complaints to promote wider service improvements and learning. We delivered an ambitious programme of 75 courses during the year, training over 800 council staff and more 400 care provider staff. Post-course surveys showed a 92% increase in delegates' confidence in dealing with complaints. To find out more visit www.lgo.org.uk/training

Yours sincerely



Michael King
Local Government and Social Care Ombudsman for England
Chair, Commission for Local Administration in England

For further information on how to interpret our statistics, please visit our website:
<http://www.lgo.org.uk/information-centre/reports/annual-review-reports/interpreting-local-authority-statistics>

Complaints and enquiries received

Adult Care Services	Benefits and Tax	Corporate and Other Services	Education and Children's Services	Environment Services	Highways and Transport	Housing	Planning and Development	Other	Total
12	21	8	31	12	18	5	13	0	120

Page 12

Decisions made

				Detailed Investigations			
Incomplete or Invalid	Advice Given	Referred back for Local Resolution	Closed After Initial Enquiries	Not Upheld	Upheld	Uphold Rate	Total
8	2	61	26	11	12	52%	120

Notes

Our uphold rate is calculated in relation to the total number of detailed investigations.
 The number of remedied complaints may not equal the number of upheld complaints. This is because, while we may uphold a complaint because we find fault, we may not always find grounds to say that fault caused injustice that ought to be remedied.

Complaints Remedied

by LGO	Satisfactorily by Authority before LGO Involvement
7	0



Report of the Director West Yorkshire Pension Fund to the meeting of Governance and Audit Committee to be held on 30 November 2017.

O

Subject: Minutes of West Yorkshire Pension Fund (WYPF) Joint Advisory Group held on 27 July 2017

Summary statement:

The Council's Financial Regulations require the minutes of meeting of the WYPF Joint Advisory Group to be submitted to this committee.

Rodney Barton
Director

Portfolio:

Leader of Council & Strategic Regeneration

Report Contact: Rodney Barton
Phone: (01274) 432317
E-mail: Rodney.barton@bradford.gov.uk

Overview & Scrutiny Area:

Corporate

1. SUMMARY

The Council's Financial Regulations require the minutes of meeting of the WYPF Joint Advisory Group to be submitted to this committee.

2. APPENDICES

Minutes of the Joint Advisory Group 27 July 2017

Minutes of a meeting of the WYPF Joint Advisory Group held on Thursday, 27 July 2017 at Aldermanbury House, Godwin Street, Bradford BD1 2ST

Commenced 1.00 pm
Concluded 2.30 pm

Present –

<p><u>Bradford Members</u> Councillors: Miller Thornton</p>	<p><u>Calderdale Members</u> Councillors: Lynn Metcalfe</p>
<p><u>Kirklees Members</u> Councillors: Fadia E Firth</p>	<p><u>Leeds Members</u> Councillors: Davey Dawson</p>
<p><u>Wakefield Members</u> Councillors: Stokes Speight</p>	<p><u>Trades Union Members</u> Mr Greenwood (UNISON) Mr Chard (GMB) Ms L Bailey (UNISON)</p>
<p><u>Scheme Members</u> Mr Sutcliffe Ms W Robinson</p>	

Apologies: Councillor D Jones and Councillor H Richards

1. APPOINTMENT OF CHAIR

Resolved –

That Councillor Thornton be appointed Chair of the Joint Advisory Group for the Municipal Year 2017/2018.

2. APPOINTMENT OF DEPUTY CHAIR

Resolved –

That Councillor Miller be appointed Deputy Chair for the Municipal Year 2017/2018

3. DISCLOSURES OF INTEREST

No disclosures of interest were received under this item but see Minute 44.

4. MINUTES

Resolved –

That the minutes of the meeting held on 26 January 2017 be signed as a correct record.

5. INSPECTION OF REPORTS AND BACKGROUND PAPERS

There were no appeals submitted by the public to review decisions to restrict documents.

6. RISK MANAGEMENT

The Director, West Yorkshire Pension Fund submitted a report, (**Document “A”**) which presented West Yorkshire Pension Fund’s latest risk management report.

A member referred to the risk identified that Central Government could ask the Pension Fund to compete against other Local Government funds or the private sector and was advised that this was a realistic risk. To mitigate against it, the identification of shared service partners or other businesses were being pursued actively.

It was noted that the reference to Auto Enrolment in risk number 4 would be amended to reflect the fact that this had already been introduced.

A member suggested that an entry be included that the appetite for risk, in terms of investment, would depend on the financial position of the fund as a whole. The Director confirmed that this could be included but pointed out that it was covered in the investment strategy and was an issue for the Investment Advisory Panel.

A member raised the issue of cyber crime in relation to the Pension Fund. Members were given an assurance that this was an issue that was regularly discussed at higher governance levels of the Council to ensure that ICT had a number of strategies in place. Regular reviews were undertaken to ensure that the latest technology was in place. Penetration tests were carried out to be certain that the Pension Fund website was secure and all front facing systems were checked annually.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund



7. SHARED SERVICE PARTNERSHIP WITH LINCOLNSHIRE PENSION FUND

The report of the Director, West Yorkshire Pension Fund, (**Document “B”**) provided an update on the West Yorkshire Pension Fund’s (WYPF) shared service partnership to provide a pensions administration service for Lincolnshire Pension Fund (LPF) which commenced on 1 April 2015. The partnership was reported to be working well with very good feedback received from LPF. All Key Performance indicators were being exceeded except for one (Deferred Benefits Set Up on Leaving) which was reported not to be a concern.

The Chair congratulated WYPF on winning the Best DB Scheme Innovation award at the Professional Pensions Scheme of the Year Awards.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

8. EXTERNAL BUSINESS - PENSIONS ADMINISTRATION FOR THE FIREFIGHTERS' PENSION SCHEMES

West Yorkshire Pension Fund (WYPF) operated a shared service partnership to provide a pensions administration service for seven Fire Authorities.

The report of the Director, West Yorkshire Pension Fund, (**Document “C”**) provided an update on business. It was reported that the partnership had been successful and that WYPF had been approached by four other Fire Authorities and had made submissions for two of them that had been put out to tender.

In response to a member enquiry it was agreed to include a Key Performance Indicator in a future report which identified backlogs in Potential Spouse Pension Enquiries.

It was noted that West Yorkshire Pension Fund benefitted from income received and each year costs had come down as a result of providing a shared service partnership for the Fire Authorities.

Members were advised that the risk of a successful outcome was minimal, in respect of the Fire Brigades Union appeal against a Tribunal ruling that reforms to the Fire Fighters’ Pension Scheme arrangements did not discriminate on the grounds of age, sex or race.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund



**9. WEST YORKSHIRE PENSION FUND (WYPF) ADMINISTRATION OUTTURN
31 MARCH 2017**

The report of the Director, West Yorkshire Pension Fund, (**Document “D”**) summarised the total costs of administering pensions and investments in 2016/17 for West Yorkshire Pension Fund.

Resolved –

That the WYPF total cost for 2016/17 reported in Document “D” be noted.

ACTION: Director, West Yorkshire Pension Fund

10. UNAUDITED REPORT AND ACCOUNTS 2016/2017

The report of the Director, West Yorkshire Pension Fund (**Document “E”**) presented the “WYPF unaudited Report and Accounts for the financial year 31 March 2017. The report and accounts were currently being audited by Mazars LLP.

The unaudited Report and Accounts provided a summary of West Yorkshire Pension Fund’s financial position for the year ended 31 March 2017. The accounts had been prepared in accordance with:

- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2016/17
- CIPFA Guidance on Accounting for Local Government Pension Scheme Management Costs.
- Pensions Statement of Recommended Practice 2007
- International Financial Reporting Standards (IFRS), as amended for the UK public sector

It was noted that performance on 18 key work areas had all exceeded the Key Performance Indicators. The final audited accounts would be reported in January 2018.

Resolved –

That the unaudited WYPF Report and Accounts for the financial year ended 31 March 2017 be noted.

ACTION: Director, West Yorkshire Pension Fund

11. AUDIT STRATEGY MEMORANDUM 2016-2017

The External Auditor presented (**Document “F”**) on the Audit Strategy Memorandum which set out the plan for the external audit of West Yorkshire Pension Fund for 2016/17 formal account.



It was noted that no new significant risk had been identified.

Resolved –

- (1) That the Audit Strategy Memorandum 2016/17, appended to Document “F” be noted
- (2) That the proposed audit fee for 2016/17 and 2017/18 of £48,546 + VAT for both years be noted.

***ACTION: Director, West Yorkshire Pension Fund
External Auditor***

12. INVESTMENT REFORM CRITERIA AND GUIDANCE - INVESTMENT POOLING

In accordance with the guidance from Government, West Yorkshire Pension Fund (WYPF) together with Greater Manchester and Merseyside were working towards the creation of an investment pool, Northern Pool (NP).

The report of the Director, West Yorkshire Pension Fund, (**Document “G”**) provided an update on the continued development of pooling arrangements.

Pools were required to provide an update on progress by the end of April. The Northern Pool challenged the need to increase costs for funds, clarifying its simpler, cheaper model, and the progress made towards creating a low cost operational pool.

A subsequent telephone conversation with the responsible civil servant was positive in tone, and the progress in establishing GLIL and consequent investment in infrastructure was particularly welcomed.

It was noted that each member of the investment pool had been requested to designate Councillor Kieran Quinn, Chair of the Greater Manchester Pension Fund, as Chair of the investment pool. This had been agreed at the West Yorkshire Pension Fund Investment Advisory Panel meeting on 27 July 2017.

In response to a member question the Director advised members that the objective of the pool in setting up the GLIL joint venture was to invest in large UK infrastructure projects. He stressed that the West Yorkshire Pension Fund had to ensure that it had a portfolio of investments in UK and foreign infrastructure projects and the appropriate return on investment was paramount.

In response to a member comment about prioritising investment in the north over the south the Director stressed the need to be mindful of the return that the investments would achieve.

Resolved –



That the continued development of pooling arrangements be noted.

ACTION: Director, West Yorkshire Pension Fund

13. LOCAL GOVERNMENT PENSION SCHEME 2014 - UPDATE

The Director, West Yorkshire Pension Fund presented **Document “H”** which updated Members on the current issues affecting the Local Government Pension Scheme (LGPS) 2014.

A member referred to the recent High Court ruling arising from the case brought by the Palestine Solidarity Campaign that the government had issued a pensions directive for a non pension purpose.

Councillor Lynn declared an interest as a member of the National Executive of the Palestine Solidarity Campaign.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

14. REVIEW OF ADDITIONAL VOLUNTARY CONTRIBUTION PROVIDERS

West Yorkshire Pension Fund had three Additional Voluntary Contribution Providers namely:

- Equitable Life Assurance Society
- Scottish Widows
- Prudential

Annually the West Yorkshire Pension Fund ask Aon Hewitt’s Defined Contribution Consulting Division to review the performance of the Additional Voluntary Contribution providers in terms of investment performance, financial strength, investment capabilities; charging structure and administration. The report of the Director, West Yorkshire Pension Fund (**Document “I”**) outlined the findings of that review.

The Director referred to concerns that had been raised about Prudential’s charges and reported that they were the same as all other Local Government schemes that they worked with. He added that the WYPF had many different employers with different payrolls and that if it could work to introduce a “straight through” payroll system this would reduce the charges. A member was still concerned about the level of their charges and whether the WYPF was getting value for money from Prudential and asked whether pressure could be brought to bear by looking at other providers. The Director confirmed that this issue was being pursued but stressed that the tender process was complex.



Resolved –

That the outcome of the annual review of West Yorkshire Pension Fund's Additional Voluntary Contribution Providers, contained in Document "I" be noted.

ACTION: Director, West Yorkshire Pension Fund

15. ACTUARIAL VALUATION 2016

To establish that the West Yorkshire Pension Fund (the Fund) was able to meet its liabilities to past and present contributors, and to review employer contribution rates, a full actuarial valuation was carried out every third year.

The last full actuarial review of the financial position of the Fund was completed as at 31 March 2016 by Aon Hewitt Limited, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

The actuarial valuation determined the level of employers' contributions for the period 1 April 2017 to 31 March 2020. The report of the Director, West Yorkshire Pension Fund (**Document "J"**) provided a summary of the results of that valuation.

WYPF was 94% funded, compared to the situation at 31 March 2013 when it was 96% funded. This valuation combined with a positive cash flow demonstrated that the Fund was in a sound financial position.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

16. REGISTER OF BREACHES OF LAW

The report of the Director, West Yorkshire Pension Fund, (**Document "K"**), informed Members that, in accordance with the Public Service Pensions Act 2013, from April 2015 all Public Service Pension Schemes came under the remit of the Pensions Regulator.

Section 70 of the Pensions Act 2004 (the Act) imposed a requirement to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

- (a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
- (b) the failure to comply is likely to be of material significance to The Pensions Regulator in the exercise of any of its functions.



A register of any breaches of the Pensions Regulator Code of Practice was maintained in accordance with the WYPF Breaches Procedure. The Register of Breaches 2016/2017 was appended to **Document “K”**. All entries were considered not to be of material significance and therefore had not been reported to the Pensions Regulator.

Resolved –

That Document “K” and the entries on the Breaches Register appended to Document “K” be noted.

ACTION: Director, West Yorkshire Pension Fund

17. NORTHERN POOL - APPOINTMENT OF A COMMON CUSTODIAL SERVICE PROVIDER

The Director, West Yorkshire Pension Fund presented a report, (**Document “L”**) which informed the Joint Advisory Group of the decision by Northern Pool to appoint a common custodian for all assets managed by funds within Northern Pool. The decision was made on the ground of efficiency and the need to have Financial Conduct Authority (FCA) regulation within the Pool.

WYPF had the largest take up of custodian services, due to the fact that it was 100% internally managed and coincidentally its current contract would be coming to an end in July 2018, therefore WYPF had taken the lead in the project to appoint a common custodian service provider for the Northern Pool.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

18. PROJECT MAGPIE - TRANSFER OF FIRST WEST YORKSHIRE (First WY) TO GREATER MANCHESTER PENSION FUND (GMPF)

The report of the Director, West Yorkshire Pension Fund, (**Document “M”**) informed the Joint Advisory Group of the decision by First WY to transfer their pension arrangements to Greater Manchester Pension Fund. The transfer was being managed by Hymans Robertson (Hymans) for First WY. Completion of the transfer was originally planned by both First WY and Hymans for 31 March 2018, the completion deadline had now moved to 31 March 2019 after initial discussion with WYPF officers, mainly due to the high value of asset that may be transferred, currently estimated at £420m.

The transfer would also involve an agreement with the West Yorkshire Combined Authority (WYCA), due to an agreement in 1986 between First WY and the West



Yorkshire Passenger Transport Executive – whose functions passed to the WYCA in April 2014. Until all relevant agreements were in place it would not be possible to produce a final plan for the transfer.

The transfer of this size of assets from WYPF to GMPF would impact on how the investment strategy was managed for a period of time. GMPF had indicated a preference for cash, however the final agreement would be based on the precise detail of the transfer directive issued by the Secretary of State, actuarial valuation and how best to manage any impact on WYPF investment strategy and performance.

Resolved –

- (1) That the report be noted.**
- (2) That the Director, West Yorkshire Pension Fund be requested to provide updates about the transfer at future meetings until the transfer is complete.**

ACTION: Director, West Yorkshire Pension Fund

19. TRAINING, CONFERENCES AND SEMINARS

The training of Joint Advisory Group Members to understand their responsibilities and the issues they were to be dealing with was a very high priority.

The Director, West Yorkshire Pension Fund submitted a report, (**Document “N”**), which informed Members of training courses, conferences and seminars which may assist them. Full details of each event were available at the meeting.

Members were requested to give consideration to attending the training courses, conferences and seminars set out in Document “N”.

No resolution was passed on this item.

20. ANNUAL MEETINGS

The report of the Director, West Yorkshire Pension Fund (**Document “O”**) advised members that two Annual Meetings, one for Employers and one for Scheme Members, will be held in 2017.

Resolved –

- (1) That it be noted that the West Yorkshire Pension Fund’s Employers Annual Meeting will be held on Thursday 2 November 2017 at City Hall.**
- (2) That the Members Annual Meeting be held at 3pm on Wednesday 1**



November 2017 in City Hall, Bradford, light refreshments to be provided.

ACTION: Director, West Yorkshire Pension Fund

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the WYPF Joint Advisory Group.

THESE MINUTES HAVE BEEN PRODUCED, WHEREVER POSSIBLE, ON RECYCLED PAPER





Report of the Strategic Director Corporate Services to the meeting of Governance and Audit Committee to be held on 30 November 2017.

Q

Subject:

Annual Treasury Management Report 2016/17

Summary statement:

This report shows the Council's Treasury Management activities for the year ending 31 March 2017

Stuart McKinnon-Evans
Strategic Director Corporate Services

Portfolio:
Leader

Report Contact: David Willis
Phone: (01274) 432361
E-mail: david.willis@wypf.org.uk

Overview & Scrutiny Area:
Corporate

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Annual Treasury Management Report 2016/17

1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2016/17. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2016/17 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 18/07/2017)
- a mid-year (minimum) treasury update report (Council 13/12/2016)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee before they were reported to the full Council..

2.1 The Economy and Interest Rates

The two major landmark events that had a significant influence on financial markets in the 2016/17 financial year were the UK EU referendum on 23 June and the election of President Trump in the USA on 9 November. The first event had an immediate impact in terms of market expectations of when the first increase in Bank Rate would happen, pushing it back from quarter 3 2018 to quarter 4 2019. At its 4 August meeting, the Monetary Policy Committee (MPC) cut Bank Rate from 0.5% to 0.25% and the Bank of England's Inflation Report produced forecasts warning of a major shock to economic activity in the UK, which would cause economic growth to fall almost to zero in the second half of 2016. The MPC also warned that it would be considering cutting Bank Rate again towards the end of 2016 in order to support growth. In addition, it restarted quantitative easing with purchases of £60bn of gilts and £10bn of corporate bonds, and also introduced the Term Funding Scheme whereby potentially £100bn of cheap financing was made available to banks.

In the second half of 2016, the UK economy confounded the Bank's pessimistic forecasts of August. After a disappointing quarter 1 of only +0.2% GDP growth,

the three subsequent quarters of 2016 came in at +0.6%, +0.5% and +0.7% to produce an annual growth for 2016 overall, compared to 2015, of no less than 1.8%, which was very nearly the fastest rate of growth of any of the G7 countries. Needless to say, this meant that the MPC did not cut Bank Rate again after August but, since then, inflation has risen rapidly due to the effects of the sharp devaluation of sterling after the referendum.

2.2 Overall Treasury Position as at 31 March 2017

At the beginning and the end of 2016/17 the Council's treasury (including borrowing by PFI and finance leases) position was as follows:

TABLE 1	31 March 2016 Principal	31 March 2017 Principal
Borrowing	£336m	£336m
PFI and other finance leases	£195m	£186m
Total debt	£531m	£522m
CFR	£666m	£653m
Over / (under) borrowing	(£135m)	(£131m)
Total investments	£43m	£50m
Net debt	£488m	£472m

2.3 The Strategy for 2016/17

The expectation for interest rates within the treasury management strategy for 2016/17 anticipated low but rising Bank Rate, (starting in quarter 1 of 2017) and gradual rises in medium and longer term fixed borrowing rates during 2016/17. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. Continued uncertainty in the aftermath of the 2008 financial crisis promoted a cautious approach, whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

In this scenario, the treasury strategy was to borrow the amount maturing this year which was £25.9m.

During 2016/17 there was major volatility in PWLB rates with rates falling during quarters 1 and 2 to reach historically very low levels in July and August, before rising significantly during quarter 3, and then partially easing back towards the end of the year.

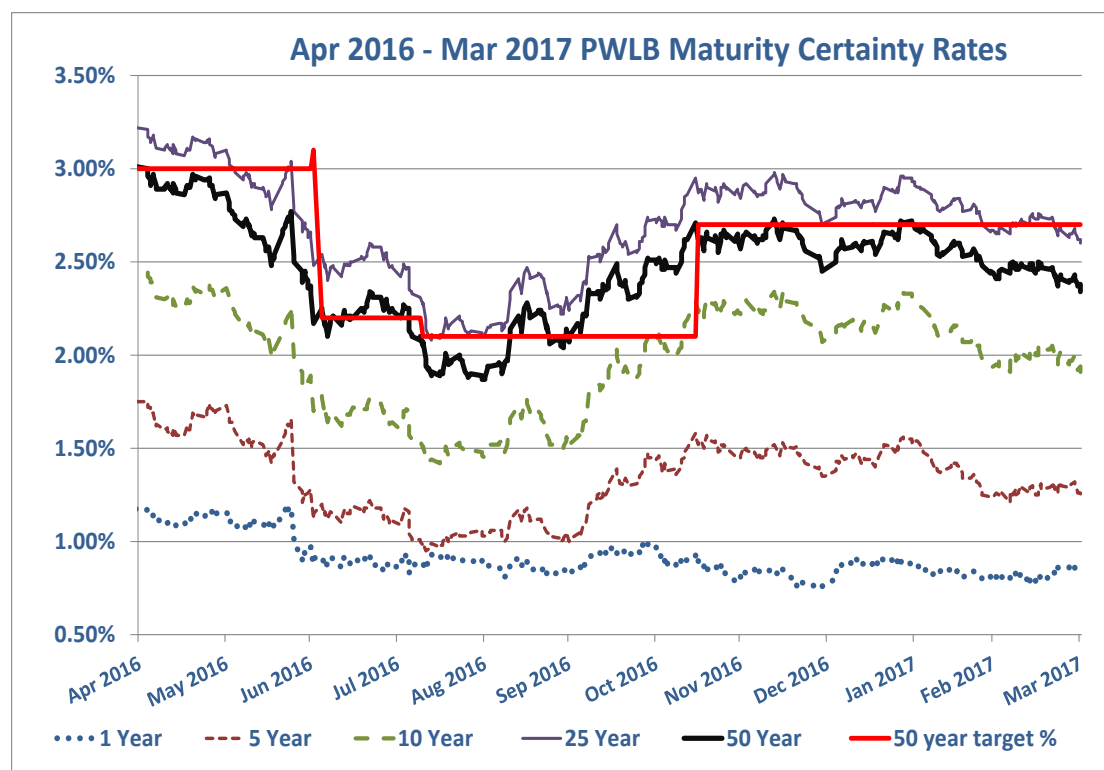
2.4 The Borrowing Requirement and Debt

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The CFR represents the sum of historic borrowing required to fund the Council's capital investment less any provision made for the repayment of that debt through the Minimum Revenue Provision (MRP). This does not necessarily equate to external borrowing as the Council can use its own cash balances to fund its borrowing requirements. Where this occurs it is sometimes referred to as being "under borrowed" as if those cash balances are exhausted the Council would need to go out and borrow externally.

	31 March 2016 Actual	31 March 2017 Budget	31 March 2017 Actual
Capital Financing Requirement	£666m	£719m	£653m

2.5 Borrowing Rates in 2016/17

PWLB certainty maturity borrowing rates - the graph below shows how PWLB certainty rates have fallen to historically very low levels during the year.



2.6 Borrowing Outturn for 2016/17

Borrowing – the following loans were taken during the year: to replace loans totalling £26m in March 2017.

Lender	Principal £m	Type	Interest Rate	Maturity
PWLB	6.5	Fixed interest rate	2.610%	45 years
PWLB	2.0	Fixed interest rate	2.610%	46 years
PWLB	6.5	Fixed interest rate	2.610%	48 years
PWLB	3.0	Fixed interest rate	2.610%	47 years
PWLB	2.5	Fixed interest rate	2.630%	44 years
PWLB	1.4	Fixed interest rate	2.620%	44 years
PWLB	4.0	Fixed interest rate	2.620%	46 years

The level of underborrowing increased over the last two years and a decision was made in December to take advantage of currently low interest rates to borrow against loans maturing in March 2017. Loans to the value of £25.9m were therefore taken out at an average rate of 2.6187% and replaced loans of the same amount maturing in March, that have a average rate of 8.947%. This will reduce the average interest rate on the overall debt portfolio by 0.5% in March 2017, saving £1.65m per year.

Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

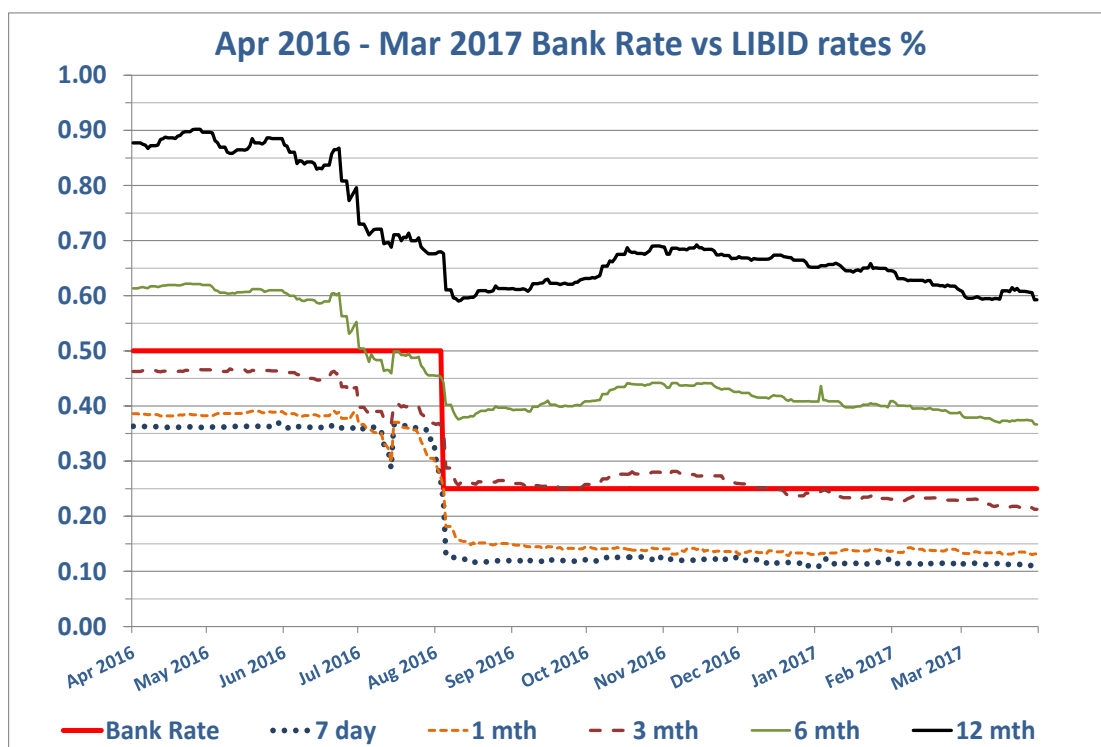
Repayments

On 10/03/17 the Council repaid £25.9m at an average rate of 8.947%

2.7 Investment Rates in 2016/17

After the EU referendum, Bank Rate was cut from 0.5% to 0.25% on 4 August and remained at that level for the rest of the year. Market expectations as to the

timing of the start of monetary tightening started the year at quarter 3 2018, but then moved back to around the end of 2019 in early August before finishing the year back at quarter 3 2018. Deposit rates continued into the start of 2016/17 at previous depressed levels but then fell during the first two quarters and fell even further after the 4 August MPC meeting resulted in a large tranche of cheap financing being made available to the banking sector by the Bank of England. Rates made a weak recovery towards the end of 2016 but then fell to fresh lows in March 2017.



2.8 Investment Outturn for 2016/17

Investment Policy – the Council’s investment policy is governed by CLG guidance, which has been implemented in the annual investment strategy approved by the Council on 18/07/2017. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by the Council - the Council maintained an average balance of £73.1m of internally managed funds. The internally managed funds earned an average rate of return of 0.44%. This compares with a budget assumption of £85m investment balances earning a rate of 0.6%. The comparable performance indicator is the average 7-day LIBID rate, which was 0.20%.

2.9 Other Issues

None

3. Other considerations

None

4. Financial and Resources Appraisal

The financial implications are set out in section 2 of this report

5. Risk Management and Governance Issues

The principal risks associated with treasury management are:

Risk: Loss of investments as a result of failure of counterparties

Mitigation: Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties

Risk: Increase in the net financing costs of the authority due to borrowing at high rates of interest

Mitigation: Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking mostly long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

6. Legal Appraisal

Any relevant legal considerations are set out in the report

7. Other Implications

7.1 Equal & Diversity implications-no direct implications

7.2 Sustainability implications-no direct implications

7.3 Green house Gas Emissions Impacts-no direct implications

7.4 Community safety implications-no direct implications

7.5 Human Rights Act –no direct implications

7.6 Trade Unions-no direct implications

7.7 Ward implications –no direct implications

8. Not for publications documents – none

9. Options

None

10. Recommendations

10.1 That the report be noted and referred to council for adoption

11. Appendices

1. Prudential Indicators

2. Treasury Management Indicators

3. Appendix Graphs

12. Background Documents

Treasury Management Practices

Treasury Management Schedules

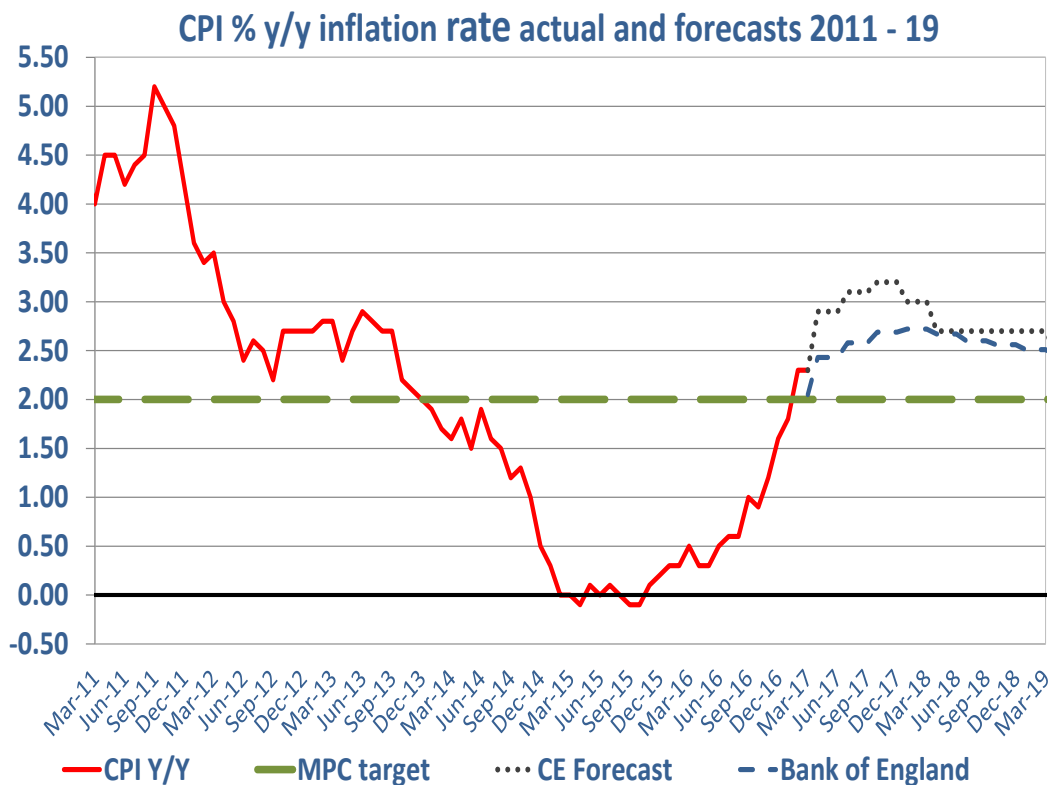
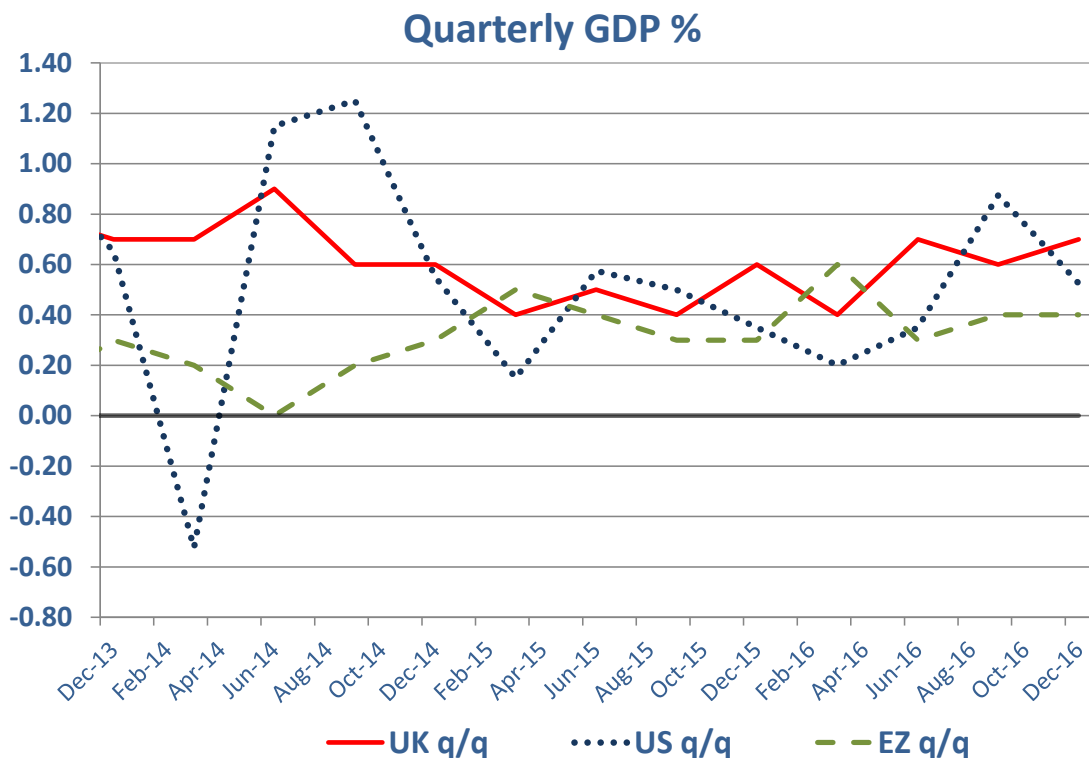
Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2015/16 Actual £m	2016/17 Original £m	2016/17 Actual £m
Capital Expenditure	£70m	£133m	£61.5m
Ratio of financing costs to net revenue stream	16.0%	14.8%	15.9%
Gross borrowing requirement General Fund	£336m	£338m	£335m
Capital Financing Requirement	£666m	£719m	£653m
Incremental impact of capital investment decisions	£ p	£ p	£ p
Increase in council tax (band D) per annum	£0.00	£0.00	£0.00

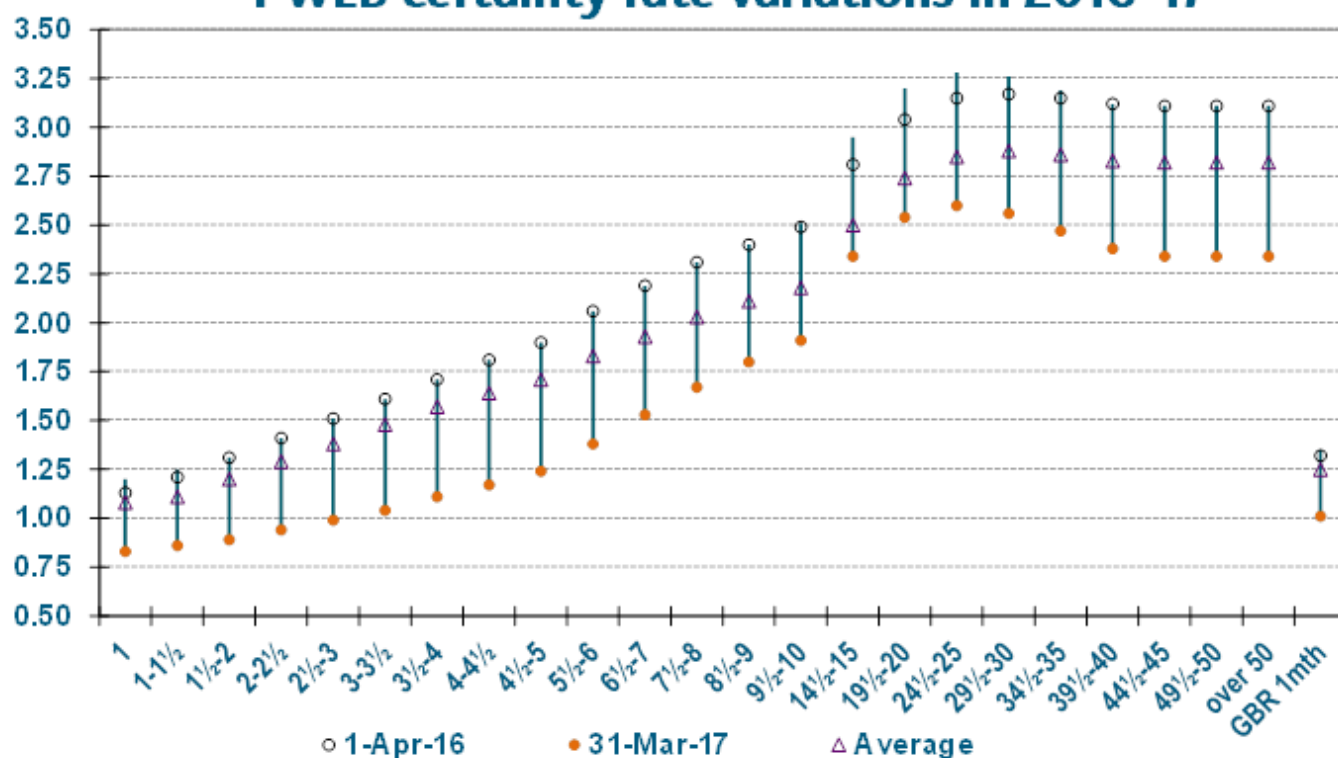
2. TREASURY MANAGEMENT INDICATORS	2015/16 actual £m	2016/17 original £m	2016/17 Actual £m
Authorised Limit for external debt -			
borrowing	£336m	£400m	£336m
other long term liabilities	£195m	£240m	£186m
TOTAL	£531m	£640m	£522m
Operational Boundary for external debt -			
borrowing	£336m	£380m	£336m
other long term liabilities	£195m	£220m	£186m
TOTAL	£531m	£600m	£522m
Upper limit for fixed rate exposure	175 %	175 %	175%
Upper limit for variable rate exposure	+20%	+20 %	+20 %
Upper limit for total principal sums invested for over 364 days (per maturity date)	£0m	£20m	£0m

Maturity structure of fixed rate borrowing during 2016/17	upper limit	lower limit
under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	50%	0%
20 years and within 30 years	90%	0%
30 years and within 40 years	90%	0%
40 years and within 50 years	90%	0%

Appendix 3: Graphs



PWLB certainty rate variations in 2016-17



	1	1-1.5	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1 month variable
1/4/16	1.130%	1.160%	1.330%	1.470%	1.620%	2.310%	3.140%	2.950%	1.310%
31/3/17	0.830%	0.860%	0.990%	1.110%	1.240%	1.910%	2.600%	2.340%	1.010%
High	1.200%	1.250%	1.460%	1.630%	1.800%	2.510%	3.280%	3.080%	1.350%
Low	0.760%	0.800%	0.840%	0.880%	0.950%	1.420%	2.080%	1.870%	1.040%
Average	0.928%	0.961%	1.104%	1.226%	1.361%	2.007%	2.724%	2.494%	1.150%
Spread	0.440%	0.450%	0.620%	0.750%	0.850%	1.090%	1.200%	1.210%	0.310%
High date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016	20/05/2016
Low date	20/12/2016	15/03/2017	10/08/2016	10/08/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016	30/11/2016

	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
31/3/17	0.83%	1.24%	1.91%	2.60%	2.34%
Low	0.76%	0.95%	1.42%	2.08%	1.87%
Date	20/12/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.93%	1.36%	2.01%	2.72%	2.49%

Money market investment rates 2016/17

	7 day	1 month	3 month	6 month	1 year
1/4/16	0.363	0.386	0.463	0.614	0.877
31/3/17	0.111	0.132	0.212	0.366	0.593
High	0.369	0.391	0.467	0.622	0.902
Low	0.107	0.129	0.212	0.366	0.590
Average	0.200	0.220	0.315	0.462	0.702
Spread	0.262	0.262	0.255	0.256	0.312
High date	27/5/16	21/6/16	10/5/16	22/4/16	26/4/16
Low date	28/12/16	21/12/16	30/3/17	31/3/17	10/8/16



Report of the Strategic Director Corporate Services to the meeting of Governance and Audit Committee to be held on 30 November 2017.

R

Subject:

Treasury Management Mid Year Review up to 30 September 2017.

Summary statement:

This report shows the Council's Treasury Mid Year Review up to 30 September 2017.

Stuart McKinnon-Evans
Strategic Director Corporate Services

Portfolio:
Leader

Report Contact: David Willis
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E-mail: david.willis@wypf.org.uk

Overview & Scrutiny Area:
Corporate

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Treasury Management Review up to 30 September 2017

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

“The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

1.2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Governance and Audit Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2017/18 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's borrowing strategy for 2017/18;
- A review of any debt rescheduling undertaken during 2017/18;
- A review of the Council's investment portfolio, Treasury and Prudential Limits for 2017/18;
- Treasury Policies /Issues

2. Economics and interest rates

2.1 Economics update

UK. After the UK economy surprised on the upside with strong growth in 2016, growth in 2017 has been disappointingly weak; quarter 1 came in at only +0.3% (+1.7% y/y) and quarter 2 was +0.3% (+1.5% y/y) which meant that growth in the first half of 2017 was the slowest for the first half of any year since 2012. . The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling after the referendum, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure. However, more recently there have been encouraging statistics from the manufacturing sector which is seeing strong growth, particularly as a result of increased demand for exports. It has helped that growth in the EU, our main trading partner, has improved significantly over the last year. However, this sector only accounts for around 11% of GDP so expansion in this sector will have a much more muted effect on the average total GDP growth figure for the UK economy as a whole.

The Monetary Policy Committee (MPC) meeting of 14 September 2017 surprised markets and forecasters by suddenly switching to a much more aggressive tone in terms of its words around warning that Bank Rate will need to rise. The Bank of England Inflation Reports during 2017 have clearly flagged up that they expected CPI inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in two years time. Inflation actually came in at 2.9% in August, (this data was released on 12 September), and so the Bank revised its forecast for the peak to over 3% at the 14 September meeting MPC. This marginal revision can hardly justify why the MPC became so aggressive with its wording; rather, the focus was on an emerging view that with unemployment falling to only 4.3%, the lowest level since 1975, and improvements in productivity being so weak, that the amount of spare capacity in the economy was significantly diminishing towards a point at which they now needed to take action. In addition, the MPC took a more tolerant view of low wage inflation as this now looks like a common factor in nearly all western economies as a result of increasing globalisation. This effectively means that the UK labour faces competition from overseas labour e.g. in outsourcing work to third world countries, and this therefore depresses the negotiating power of UK labour. However, the Bank was also concerned that the withdrawal of the UK from the EU would effectively lead to a decrease in such globalisation pressures in the UK, and so would be inflationary over the next few years.

It therefore looks very likely that the MPC will increase Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank

Rate. As at the start of October, short sterling rates are indicating that financial markets do not expect a second increase until May 2018 with a third increase in November 2019. However, some forecasters are flagging up that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while a strong export performance will compensate for weak services sector growth. If this scenario were to materialise, then the MPC would have added reason to embark on a series of slow but gradual increases in Bank Rate during 2018. While there is so much uncertainty around the Brexit negotiations, consumer confidence, and business confidence to spend on investing, it is far too early to be confident about how the next two years will pan out.

EU. Economic growth in the EU, (the UK's biggest trading partner), has been lack lustre for several years after the financial crisis despite the ECB eventually cutting its main rate to -0.4% and embarking on a massive programme of Quantitative Easing. However, growth picked up in 2016 and now looks to have gathered ongoing substantial strength and momentum thanks to this stimulus. GDP growth was 0.5% in quarter 1 (2.0% y/y) and 0.6% in quarter 2 (2.3% y/y). However, despite providing massive monetary stimulus, the European Central Bank is still struggling to get inflation up to its 2% target and in August inflation was 1.5%. It is therefore unlikely to start on an upswing in rates until possibly 2019.

USA. Growth in the American economy has been volatile in 2015 and 2016. 2017 is following that path again with quarter 1 coming in at only 1.2% but quarter 2 rebounding to 3.1%, resulting in an overall annualised figure of 2.1% for the first half year. Unemployment in the US has also fallen to the lowest level for many years, reaching 4.4%, while wage inflation pressures, and inflationary pressures in general, have been building. The Fed has started on a gradual upswing in rates with three increases since December 2016; and there could be one more rate rise in 2017 which would then lift the central rate to 1.25 – 1.50%. There could then be another four more increases in 2018. At its June meeting, the Fed strongly hinted that it would soon begin to unwind its \$4.5 trillion balance sheet holdings of bonds and mortgage backed securities by reducing its reinvestment of maturing holdings.

Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems.

Japan is struggling to stimulate consistent significant growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy.

2.2 Interest rate forecasts

The Council's treasury advisor, Link Asset Services (formerly Capita Asset Services), has provided the following forecast:

	NOW	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.25
3 month LIBID	0.40	0.40	0.40	0.40	0.40	0.60	0.60	0.60	0.70	0.90	0.90	1.00	1.20	1.20	1.20
6 month LIBID	0.45	0.50	0.50	0.50	0.60	0.80	0.80	0.80	0.90	1.00	1.00	1.10	1.30	1.30	1.40
12 month LIBID	0.65	0.70	0.80	0.80	0.90	1.00	1.00	1.10	1.10	1.30	1.30	1.40	1.50	1.50	1.60
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.10	2.10	2.20	2.30	2.30
10 yr PWLB	2.10	2.10	2.20	2.30	2.40	2.40	2.50	2.60	2.60	2.70	2.70	2.80	2.90	2.90	3.00
25 yr PWLB	2.70	2.80	2.90	3.00	3.00	3.10	3.10	3.20	3.20	3.30	3.40	3.50	3.50	3.60	3.60
50 yr PWLB	2.40	2.50	2.60	2.70	2.80	2.90	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40	3.40

Link Asset Services undertook its last review of interest rate forecasts on the 7th November after the Monetary Committee change rates on the 2nd November from 0.25% to 0.50%. The question now is whether the MPC will stop at just withdrawing the emergency Bank Rate cut of 0.25% in August 2016, after the result of the EU withdrawal referendum, or whether they will embark on a series of further increases in Bank Rate during 2018.

The overall balance of risks to economic recovery in the UK is currently to the downside but huge variables over the coming few years include just what final form Brexit will take, when finally agreed with the EU, and when.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU and US.
- Geopolitical risks in Europe, the Middle East and Asia, which could lead to increasing safe haven flows.
- A resurgence of the Eurozone sovereign debt crisis.
- Weak capitalisation of some European banks.
- Monetary policy action failing to stimulate sustainable growth and to get inflation up consistently to around monetary policy target levels.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. Funds Rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels causing an increase in the inflation premium inherent to gilt yields.

2.3 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2017/18 was approved by this Council on 18th July 2017. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

2.4 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- Limits to Borrowing Activity,
- Borrowing
- Compliance with the limits in place for borrowing activity.

2.4.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	2017/18 Original Estimate £m	Current Position £m	2017/18 Revised Estimate £m
Total Capital Expenditure	£124m	£34.8m	£104.8m

2.4.2 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of Capital Finance Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2017/18 and next two financial years. This allows some flexibility for limited early borrowing for future years.

The Strategic Director Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

Below is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2017/18 Original Indicator £m	Current Position
Borrowing	440	336
Other long term liabilities	240	186
Total	680	522

Given the current historically low interest rates, the reduction in the Council's cash balance and the need to finance the commitments in the capital investment plan it is expected that the Council will need to consider additional borrowing before the end of this financial year.

2.4.3 Borrowing

The Council's capital financing requirement (CFR) for 2017/18 is expected to be slightly above the original forecast of £675m, due to changes in the profiling of spend in a number of capital schemes. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £336m and last year a decision was made in December to take advantage of low interest rates to borrow against loans maturing in March 2017. Loans to the value of £25.9m was taken out.

It is anticipated that further borrowing be undertaken during this financial year to refinance a loan of £10m maturing in February 2018 and commitments in the capital investment plan.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2017 to 30 September 2017

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.8	1.14	1.78	2.52	2.25
Date	03/05/17	15/06/17	15/06/17	08/09/17	08/09/17
High	1.16	1.62	2.22	2.83	2.57
Date	15/09/17	28/09/17	28/09/17	07/07/17	07/07/17

2.4.4 Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

2.5 Investment Portfolio, Treasury and Prudential Limits 2017/18

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment, investment returns are likely to remain low.

The Council held £45m of investments as at 30th September 2017 (£49.8m at 31 March 2017) and the investment portfolio yield for the first 6 months of the year is 0.37% against a benchmark of 0.25 %. £8.3m in Euro's is also held in our Euro account in connection with the Waste Disposal Contract.

The Strategic Director Corporate Services confirms that the approved limits within the Annual Investment Strategy and prudential limits were not breached in 2017/18, apart from on the cash investments, where school individual balances for both Lloyds and Barclays were over the set limits.

2.6 Treasury Policies /Issues

2.6.1 Revised CIPFA Codes

The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, and the Prudential Code. CIPFA is aiming to issue the revised codes during November.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on this authority.

2.6.2 MIFID II

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under MIFID II. These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from for cash deposits with banks and building societies.

3. Other considerations

None

4. Financial and Resources Appraisal

The financial implications are set out in section 2 of this report

5. Risk Management and Governance Issues

The principal risks associated with treasury management are:

Risk: Loss of investments as a result of failure of counterparties

Mitigation: Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties

Risk: Increase in the net financing costs of the authority due to borrowing at high rates of interest.

Mitigation: Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking mostly long term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

6. Legal Appraisal

Any relevant legal considerations are set out in the report

7. Other Implications

7.1 Equality & Diversity – no direct implications

7.2 Sustainability implications – no direct implications

7.3 Green house Gas Emissions Impact – no direct implications

7.4 Community safety implications – no direct implications

7.5 Human Rights Act – no direct implications

7.6 Trade Unions – no direct implications

7.7 Ward Implications – no direct implications

8. Not for publications documents – none

9. Options

10. Recommendations

10.1. That the changes to the Treasury policy set out in section 2.6. be noted and referred to Council for adoption.

11. Appendices

Prudential and Treasury Indicators as at 31st September 2017

12. Background Documents

Treasury Management Schedules
Treasury Management Practices
Treasury Policy

APPENDIX 1: Prudential and Treasury Indicators as at 30 September 2017

Treasury Indicators	2017/18 Budget £m	(Apr - Sept) Actual £m
Authorised limit for external debt	£680m	£680m
Operational boundary for external debt	£620m	£620m
Gross external debt	£528m	£522m
Upper limit for principal sums invested over 365 days	£20m	£0m

Maturity structure of fixed rate borrowing -	Upper Limit	(Apr-March) Actual
Under 12 months	20%	3%
12 months to 2 years	20%	3%
2 years to 5 years	50%	8%
5 years to 10 years	50%	18%
10 years and above	90%	68%

Prudential Indicators	2017/18 Budget £m	(Apr - Sept) Actual £m
Capital expenditure	£124m	£34m
Capital Financing Requirement (CFR)	£675m	£678m
Ratio of financing costs to net revenue stream	16.2%	16.1%
Incremental impact of capital investment decisions:- a) Increase in council tax (band change) per annum.	0.00	0.00

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Report of the Director of Corporate Services to the meeting of the Governance and Audit Committee to be held on 30 November 2017.

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Subject:

INTERNAL AUDIT PLAN 2017/18 – MONITORING REPORT AS AT 30 SEPTEMBER 2017

Summary statement:

This report monitors the progress made by Internal Audit against the Internal Audit Plan for 2017/18 as at 30 September 2017.

Stuart McKinnon-Evans
Director of Corporate Services

Portfolio

Leader of Council and Corporate Portfolio

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Improvement Area:

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Corporate

SUMMARY

- 1.1 The purpose of this report is to bring to the attention of members of the Governance and Audit Committee (G&AC) any significant issues arising from the audit work undertaken to date and to inform them about the progress made up to 30 September 2017, against the Internal Audit Plan, which was approved by the Committee on 25 April 2017.

2. BACKGROUND

- 2.1 Internal Audit is part of Financial Services within the Department of Corporate Services. This is the half year monitoring report on the Internal Audit Plan for 2017/18. This is detailed in Appendix 1. The overall Audit Opinion is that from the audit work performed to date, Internal Audit concludes that the Council's overall control framework is mostly effective.

- 2.2 The report enables the Council to demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS). These require the Head of Internal Audit to report periodically to the Governance and Audit Committee on Internal Audit's activity, purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested either by senior management or the Governance and Audit Committee.

The PSIAS also require the Head of Internal Audit to communicate the Internal Audit activity's plans and resource requirements, including significant interim changes, to the Governance and Audit Committee, including any impact of resource limitations.

- 2.3 From 1st September 2014 Wakefield and Bradford Councils shared a Head of Internal Audit. However in September this year Wakefield's Council Management Team (CMT) determined that this was a route they no longer wished to pursue, including the work that was being completed in relation to Counter Fraud. From October, this joint working operation has ceased to be in operation, which is disappointing considering the resource and investment that was committed to making the arrangement work for the last three years. Whilst Wakefield CMT received a report on the arrangement, which was shared with Bradford, it is still unclear why Wakefield changed their view on this approach, when it was Wakefield who initially instigated the arrangement in 2014.

Bradford has also brought in 60 days per annum of computer audit service from Wakefield. Due to internal workload considerations in Wakefield this arrangement has been temporarily put on hold. If the opportunity arises in the future to continue this arrangement then Bradford would wish to continue this in 2018/19.

- 2.4 In January 2018 Peter Jackson, the Audit Manager for Doncaster Internal Audit, will be undertaking the external assessment of Bradford Internal Audit. This will assess the level of compliance with PSIAS. The findings will be reported to the Governance and Audit Committee, in accordance with their decision on the 29th September 2016.

3. OVERVIEW AND SCRUTINY COMMITTEE CONSIDERATION

- 3.1 Not Applicable.

4. OTHER CONSIDERATIONS

4.1 There are no other considerations.

5. OPTIONS

5.1 Not applicable

6. FINANCIAL AND RESOURCE APPRAISAL

6.1 The work of Internal Audit adds value to the Council by providing management with an assessment on the effectiveness of internal control systems, making, where appropriate, recommendations that if implemented will reduce risk and deal with financial uncertainty.

7. RISK MANAGEMENT

7.1 The work undertaken by Internal Audit is primarily concerned with examining risks within various systems of the Council and making recommendations to mitigate those risks. Consideration was given to the corporate risk register when the Audit Plan for 2017/18 was drawn up and any issues on the risk register that relate to an individual audit are included within the scope.

7.2 The key risks examined in our audits are discussed with management at the start of the audit and the implementation of recommendations is followed up with Strategic Directors.

8. LEGAL APPRAISAL

8.1 The Accounts and Audit Regulations for 2015 require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. These standards are detailed in the Public Sector Internal Audit Standards supported by CIPFA's Local Government Application Note.

9. OTHER IMPLICATIONS

9.1 Equal Rights

Internal Audit seeks assurance that the Council fulfils its responsibilities in accordance with its statutory responsibilities and its own internal guidelines. When carrying out its work Internal Audit reviews the delivery of services to ensure that they are provided in accordance with the formal decision making process of the Council.

9.2 Sustainability Implications

When reviewing Council Business Internal Audit examines the sustainability of the activity and ensures that mechanisms are in place so that services are provided within the resources available

9.3 Greenhouse Gas Emissions Impacts

There are no impacts on Gas Emissions.

9.4 **Community Safety Implications**

There are no direct community safety implications.

9.5 **Human Rights Act**

There are no direct Human Rights Act implications.

9.6 **Trade Union**

There are no implications for the Trade Unions arising from the report.

9.7 **Ward Implications**

Internal Audit will undertake specific audits through the year which will ensure that the decisions of council are properly carried out.

10. **NOT FOR PUBLICATION DOCUMENTS**

10.1 None.

11. **RECOMMENDATIONS**

That the Governance and Audit Committee:

11.1 Takes assurance from the results to date that show that the control environment of the authority is overall satisfactory.

11.2 Endorse the anticipated coverage and changes of Internal Audit work during the year.

11.3 Requires Internal Audit to monitor the control environment and continues to assess areas of control weakness and the ability of management to deliver improvements to the control environment when required.

11.4 Requires Internal Audit to monitor its resourcing levels to ensure that they are sufficient and appropriate to support an effective Internal Audit function.

12. **APPENDICES**

Appendix 1 – Internal Audit Plan for 2017/18 – Monitoring Report as at 30th September 2017.

13. **BACKGROUND DOCUMENTS**

13.1 G&AC report dated 25 April 2017 – Internal Audit Plan 2017/18.

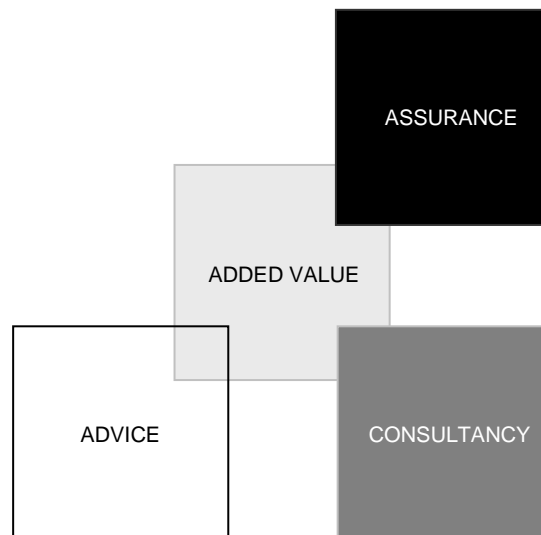
Internal Audit



INTERNAL AUDIT PLAN 2017/18

MONITORING REPORT

AS AT 30.09.17.



1 INTRODUCTION

- 1.1 The Internal Audit Annual Plan for 2017/18 was approved by the Governance and Audit Committee (G&AC) at its meeting on 25 April 2017. This report is the half year monitoring report for this financial year. It identifies the progress made against the Internal Audit Plan up until 30 September 2017 and identifies any significant audit issues arising.
- 1.2 The report enables the Council to demonstrate compliance with the Public Sector Internal Audit Standards (PSIAS). These require the Head of Internal Audit to report periodically to the Governance and Audit Committee on Internal Audit's activity, purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested either by senior management or the Governance and Audit Committee.
- 1.3 The PSIAS also require the Head of Internal Audit to communicate the Internal Audit activity's plans and resource requirements, including significant interim changes, to the Governance and Audit Committee, including any impact of resource limitations

2 RESOURCES

2.1 Reduction in Audit Resources

The Internal Audit Plan for 2017/18 has the same capacity as in 2016/17 (1877 days) but is significantly less than the capacity it had a few years ago. This net reduction has required the Service in conjunction with the s151 officer to consider and prioritise the use of these resources. The main core delivery of Internal Audit in 2017/18 was planned to be the provision of assurance on the Council's fundamental financial systems.

From 1st September 2014 Wakefield and Bradford Councils shared a Head of Internal Audit. However in September in this year Wakefield's Council Management Team (CMT) determined that this was a route they no longer wished to pursue including the work that was being completed in relation to Counter Fraud. From October this joint working operation has ceased to be in operation

Currently the work with Wakefield, along with the management of insurance and information governance and accountancy support to Bradford, absorb 194 days (10%) of the available planned 1877 days. This will be amended in the second half of the year. In addition, a further 170 days are provided to West Yorkshire Pension Fund. The net audit days currently provided to Bradford Council in 2017/18 is 1513 days.

2.2 MK Insight

The 2017/18 plan contains a provision of time to complete the implementation of MK Insight that commenced in 2016/17. MK Insight is an integrated Internal Audit ICT package produced by Morgan Kai that delivers the full range of Internal Audit functionality from planning, to reporting, including time recording and working paper preparation. MK Insight replaces a collection of manual and Microsoft based documents and out of date in house packages previously used.

Following a period of training and development MK Insight started to be used by the Internal Audit Team in January 2017 and was used by Audit Management to produce the 2017/18 audit plan. MK Insight is now being used by all staff to produce audits,, report their findings and deliver the 2017/18 audit plan. The following up of audit recommendations and the reporting of performance via MK Insight are currently under development.

3 SERVICE DELIVERY

3.1 Audit Coverage

As at 30 September 2017, 38% of the 2017/18 audit plan has been completed compared to last year when 44% of the 2016/17 audit plan had been completed by this time. This reduction in plan delivery is due to Internal Audit needing to spend more time on planned audits in order to pursue issues identified and involvement in ongoing investigations being greater than anticipated. The service has also experienced higher levels of staff sickness than in prior years.

Internal Audit faces a challenge in the second half of 2017/18 to deliver the audit plan. This challenge is due to the available resources of the function, which now has very limited capacity to absorb unforeseen audit issues and unplanned work, without it affecting the delivery of planned core audit work.

During the year to date there have been some revisions to the 2017/18 audit plan to reflect the priorities of the service and that several audits are taking more time to complete than was anticipated. These plan changes are detailed in section 3.8. The net effect of the proposed changes is that the section will audit less significant and fundamental systems than planned.

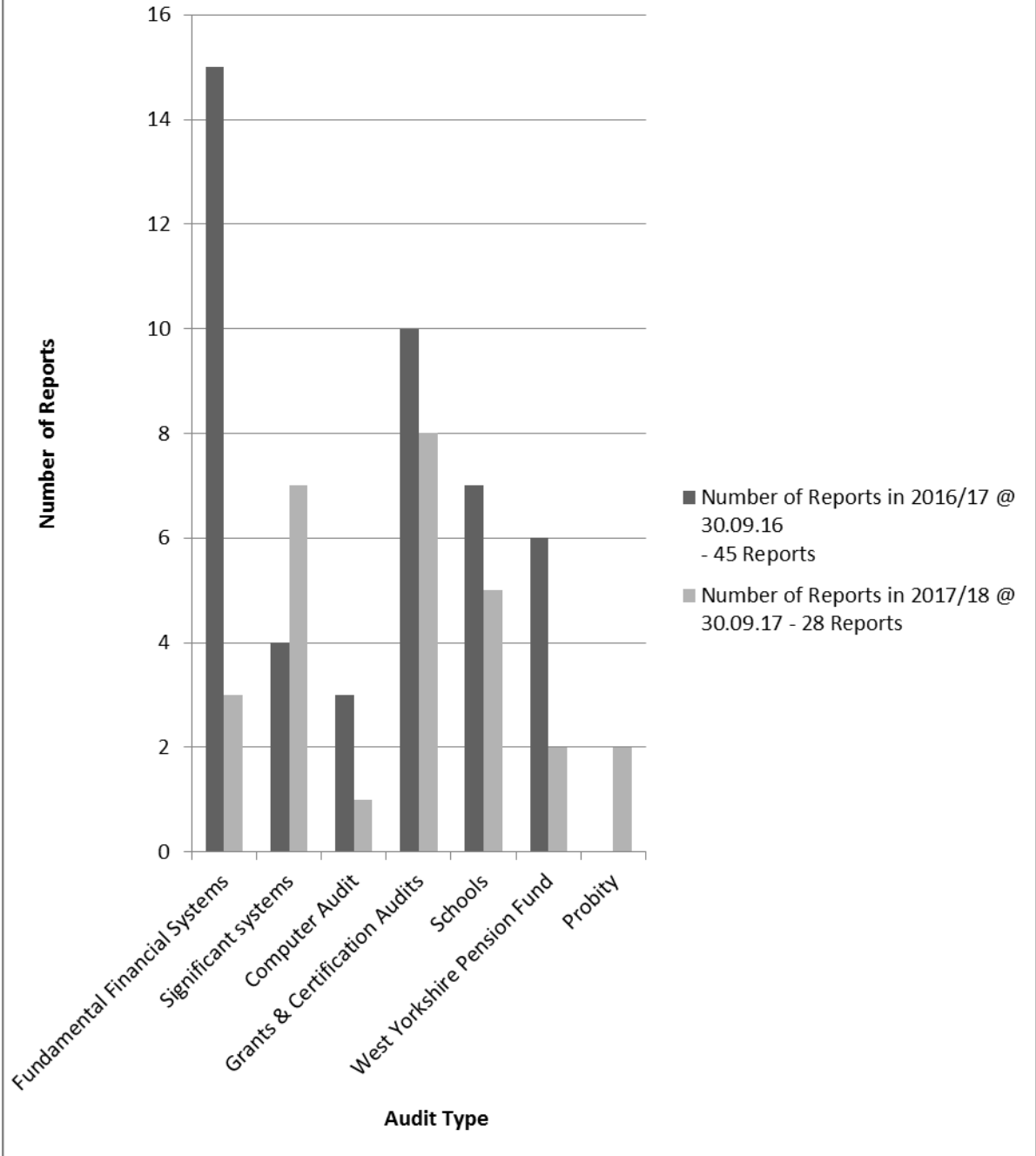
Currently it is forecast that approximately 80% of the audit plan will be delivered by the end of the financial year, which is less than the target level of completion (90%). However, due to its relatively low resourcing levels, this forecast is more sensitive to changes in available resources than in prior years.

3.2 Reports Issued

All Internal Audit assignments result in an Audit Report that identifies the audit coverage, findings from the audit, risks arising from identified control weaknesses and prioritised audit recommendations. Chart One below shows that as at 30 September 2017 a total of 28 reports have been issued, which compares with 45 at this time last year. The chart shows a breakdown of the reports by audit type.

The reduction in the number of reports issued is due to the reduction in available resources and involvement in investigations.

Chart One: Showing the Breakdown by Audit Type of Audit Reports Produced As At 30 September 2016 and 2017



3.3 Control Environment

The following table details the opinions from those audits over the last two years where an appraisal of the overall system could be obtained. As can be seen the proportion of reports assessed as either adequate, good or excellent opinions is generally consistent over time and account for approximately 80% of the opinions reached. Whilst reassuring, this is as expected as Internal Audit’s core focus is on fundamental and significant systems. Further, Internal Audit’s work includes an

increasing proportion of grant certification and West Yorkshire Pension Fund audits, both of which have a track record of being generally well controlled.

Table One: Six Monthly Analysis of Audit Opinions raised in Internal Audit Reports issued in the Period 1 October 2015 to 30 September 2017

Opinions	1 Oct 2015 and 31 March 2016		1 April 2016 and 30 Sept 2016		1 Oct 2016 and 31 March 2017		1 April 2017 and 30 Sept 2017	
	Total	Proportion	Total	Proportion	Total	Proportion	Total	Proportion
Excellent/Effective*	4	15%	9	29%	8	25%	9	41%
Good/Mostly Effective*	6	23%	8	26%	10	31%	6	27%
Satisfactory	13	50%	9	29%	10	31%	2	9%
Limited Assurance / Partially Effective*	3	12%	5	16%	4	13%	4	18%
No Assurance/Ineffective*	0	0%	0	0%	0	0%	1	5%
Total Relevant Reports	26		31		32		22	
Not applicable**	5		14		5		6	
Total Reports	31		45		37		28	

* On implementing MK Insight, Internal Audit has, reduced the number of audit opinion categories from 5 to 4. The new audit opinions range from Effective to Ineffective that started to be used from 2017. Consequently, the former audit opinion of satisfactory does not have a direct comparator going forward.

** Internal Audit gives an opinion on the control environment whenever it is appropriate to do so. However, audit reports that provide advice, review specific control concerns or investigate irregularities generally do not have an opinion as they are too limited in scope.

The analysis above relates to those reports with opinions. Opinions are derived from a standard analysis of the level of control satisfaction and number of high priority recommendations within a report. Where reports are produced that do not relate to the planned evaluation of risks and controls, for example in response to requests for advice on specific matters, or in response to known control failures there is often no opinion applied to the report.

The proportion of reports issued without an opinion being expressed is decreasing over time, but still represents around 20% (6) of all reports issued over the period 1.4.17 to 30.09.17.

The audit work has identified that 73% of controls examined were operating satisfactorily. All concerns arising from the audit assignments result in an audit recommendation. To date 98% of our audit recommendations have been accepted by management. This is consistent with the 2016/17 outcome (100%).

3.4 Follow Up Audits

3.4.1 Internal Audit currently follows up its audit work in two ways – Annual follow up returns from Directors and performing individual follow up audits. The purpose of this section is to report the progress that Directors have confirmed as being made in implementing previously agreed Internal Audit recommendations and also to inform G&AC of the Internal Audit follow up audits to be undertaken during the year.

3.4.2 Annual Returns From Directors

Analysis of the Annual Returns from Directors is shown in Table Two below.

Table Two: Analysis of Director's Reported Rate of Implementation of Agreed Recommendations for Reports issued up to 31.03.17

Department	Total in Follow Up		Overall Progress of Implementation		Outstanding Reports & Rec's Carried Forward		No Progress in Level of Implementation During Year	
	Reports	Rec's	2017/18	2016/17	Reports	Rec's	Reports	Rec's
Chief Executive	4	4	100%	100%	0	0	0	0
Children's Services	20	79	78%	90%	9	24	1	1
Corporate Services	25	49	91%	89%	9	10	0	0
Health & Wellbeing	3	5	30%	99%	3	5	1	1
Place	13	31	95%	90%	4	10	2	3
Total for all Departments	65	168	78%	93%	25	49	4	5

There were a total of 65 reports containing 168 High Priority recommendations which were followed up with Directors. This included 23 reports and 49 agreed recommendations that were carried forward as not fully implemented at the time of last year's follow up, and 42 reports and 119 agreed recommendations issued during the 2016/17 financial year. All recommendations included in the follow up had passed their agreed implementation date. The Directors' returns showed that 58% of reports and 68% of recommendations were fully implemented during the year, which is a decrease from last year's figures (70% and 78% respectively). If progress is adjusted to reflect overall progress for each report, including partial completion (as shown on the Covalent system which is used to monitor the recommendations) the total progress of implementation of recommendations is 78% which is significantly lower than last year's position of 93%.

Unfortunately this year's progress figures are skewed as no update was received from Health and Wellbeing therefore the 2 reports that were issued during 2016/17 show as having no progress and the position relating to the report brought forward from last year is unchanged. These reports were:

Community Care Payments Assurance: Issued 20.02.2015
 Individual Service Funds: Issued 11.04.2016
 Direct Payments: Issued 23.09.2016

In addition, Children's Services were unable to obtain updates from the following schools.

Lidget Green Primary School: Issued 10.03.2017
 Chellow Heights Special School: Issued 03.03.2017
 Canterbury Nursery School and Centre for Children & Families: Issued 31.03.17
 Primary PE & Sport Premium 2014/15 – Chellow Heights Special School: Issued 05.06.2015
 12-13 Hanson School: Issued: 01.02.2013

Although too late for this report, Internal Audit will continue to seek an update on these recommendations.

Those Departments which had provided complete updates showed progress that matched or exceeded last year.

The Director's returns showed no significant change in the number of reports and recommendations carried forward at the end of 2016/17 or those carried forward for a second year.

Due to the introduction of the MKI Audit software, 2016/17 is the last year in which Covalent will be used to keep track of the implementation of recommendation. Any recommendations which are not fully implemented will be transferred to MKI for future follow up.

3.4.3 Individual Follow Up Audits

In previous years the Follow Up process has included verifying the accuracy of a sample of reports that were confirmed as fully implemented within the Director's Returns. In recent years the accuracy of reporting has been found to be improving, therefore due to this and reducing resources, the time available for carrying out follow up audits in 2017/18 has been allocated to confirming that adequate progress is being made to address the more significant weaknesses identified in previous reports.

Six follow up audits will be carried out in 2016/17 including Direct Payments to Social Care Clients, which was referred to within the Audit Opinion of the 2016/17 Annual Audit Report. To date one follow up on a Facilities Management Contractor Operating at a Secondary School (which was also within the Audit Opinion of the 2016/17 report) has commenced and further details of this are given in Appendix B below.

3.5 Procurement Support

There are currently a number of reviews in relation to procurement activity. This is involving a number of officers across Corporate Services. This is being supported by Internal Audit on an on going basis as the investigation progresses.

3.6 Summary of Audit Reports and Findings

A summary of the routine audits undertaken and the recommendations identified is reported in Appendix A.

3.7 Overall Opinion

From the audit work performed to date, Internal Audit concludes that the Council's overall control framework is mostly effective, though this is based upon a reduced level of coverage in comparison to prior years.

3.8 Existing and Planned Changes to Internal Audit Coverage in 2017/18

During the year the audit plan is subject to revision in light of requests for, or the need to do additional unplanned audit work and also to reflect any in year changes in available resources. Action is taken as appropriate to ensure that audit resources are

efficiently and effectively deployed. The 2017/18 audit plan has been revised. Appendix B indicates those audits added to the plan and those that have been replaced. Those audits replaced will be considered when establishing the 2018/19 audit plan, but in a number of cases it is anticipated that there will no longer be a need for the audit work in 2018/19.

In determining these plan changes, Internal Audit has considered a number of relevant factors including risk and impact of control failure, external funding requirements, prior audit assurance, maturity of the control environment, appropriate timing for the review, Corporate and Directors' priorities.

It is proposed that the section continues to focus on Fundamental and Significant Systems work in the second half of the financial year as these areas of work materially contribute to audit's opinion on the Council's control environment. In addition, as significant system work takes longer to prepare and complete, this reduces the ability of the service to reach its 90% audit plan completion target.

The fundamental and significant systems planned to be covered in the second half of the year include the following.

Fundamental systems

- Revenue enforcement
- Investment and Loans
- Council Tax - Liability, Billing & Valuation
- NNDR - Liability, Billing and Valuation
- Payroll Processing
- Payroll Voluntary Deductions
- Apprenticeship Levy

Significant systems

- Continuing Healthcare
- Transitional Planning
- Direct Payments
- Safeguarding Children
- ContrOCC & SystemOne
- Insurance
- Waste Management
- Transport incl vehicle repairs and maintenance, fuel recharge
- s106 and Community Infrastructure Levy
- Museum & Artefacts
- Strategic risk - Quality accessible & affordable housing
- Strategic risk - Regeneration & investment into District: focusing on Keighley bid
- Grants to Voluntary Organisations
- ContrOCC Liquidlogic Integration (Children's)

3.8 Internal Audit's Performance Indicators

Client Feedback

After each audit a client feedback questionnaire is issued to the appropriate officer to obtain feedback from them about the audit. 100% of the officers that responded said that the audit recommendations made were useful, realistic and overall the audit was of benefit to management.

Timeliness of Audits

During the first 6 months, 83% of draft reports were issued within 3 weeks of finishing the site work, this is above the target of 80%. 90% of final reports were issued within a week of the post audit meeting, which matched the target. The timeliness of issuing draft and final reports is crucial to providing a good service to officers, enabling them to deal with the issues raised and consider the recommendation made.

Appendix A Summary of Audit Reports and Findings

Appendix B Unplanned Audit Work Included in or Deleted from the Revised 2017/18 Internal Audit Plan as at 31.10.17

Summary of Audit Reports and Findings

1. Fundamental Systems

- 1.1 Audit work carried out in the first half of 2017/18 supported the strategy of moving away from high level annual assurance audits to more detailed cyclical audits of the systems. During the period to 30.09.17, 3 reports were issued relating to fundamental systems.
- 1.2 Review of the bank account reconciliation resulted in an effective audit opinion. However, the audit of the Council's quotes, tenders and contract award process, examined in two departments, resulted in Limited Assurance opinions, mainly due to non-compliance with Council Contract Standing Orders, as detailed below.
- Contracts awarded without competition being involved are not being recorded on the Contracts and Grants Register as having had "exceptions to competition" applied, with the risk continuing that contracts are being awarded to inappropriate suppliers;
 - Not all contracts awarded are being recorded on the Council's Contracts and Grants Register, with the risk continuing that the full extent of the Council's contractual relationships will be not be completely communicated. (This is also a failure to comply with the requirements of the Local Government (Data Transparency) Code 2015).
 - Contracts estimated to be greater than £2m in value are not being reported to the relevant Overview and Scrutiny Committee prior to tender of contracts, with the risk continuing that contracts are being awarded to inappropriate suppliers
 - A preferred specification for aluminium windows has been in place for at least the last 16 years, without any evidence of review, with the risk that Value for Money is no longer being achieved

2. Significant Systems

- 2.1 During the first half of the year, seven reports relating to significant systems were issued. These included Licensing (good opinion), Housing Options (satisfactory opinion), Planning Applications & Building Regulations Fees (mostly effective opinion) and Advice relating to Financial Procedures of Bradford District Tenants and Residents Federation (BDTRF). The remaining three reports are summarised below.
- 2.2 A recent audit of No Recourse to Public Funds (NRPF) gave a no assurance opinion. There is no statutory guidance on the duties to support people with NRPF, the legal framework is complex and in 2016/17 had a budget of £828,000, the costs of which are borne solely by the Council, The service lacks high level direction and governance, resulting in service delivery and resultant costs that are not currently subject to the same level of scrutiny as other areas of social care. The relative isolation of the service and closeness to its clients also appears to contribute to a level of risk aversion, and officers can take a cautious approach where legislation is unclear, or when threatened with potential legal action.
- 2.3 The audit review of cash purchasing gave a limited assurance opinion highlighting the following control weaknesses: lack of a process to recover payments made in lieu

of benefits; lack of consideration of alternative payment methods to cash including the use of corporate and other Council contracts available; and loss of the potential to reclaim VAT on cash purchases made.

- 2.4 Internal Audit also performed a review of the Out of Area Placements process for looked after children. It became evident during the audit that the service was in a period of significant change and consequently not all audit tests could be completed. An interim audit report was produced that highlighted key concerns relating to effective contract management; resourcing issues in the Placement & Co-ordination Team; and effective financial management, including the need to update Liquid Logic with placement data in advance of implementing Controcc.

3. Schools

3.1 School Audits

During the first half of the year, five reports relating to schools were issued (compared to seven reports in 2016/17). Of these, four related to individual school audits and included recommendations to improve the control environment at all schools visited. One school was audited in response to an anonymous letter received by Internal Audit, which made suggestions about the appropriateness of overtime claimed. Recommendations were made to strengthen controls in the authorisation of overtime, however audit concluded that there was no evidence to suggest that any inappropriate or fraudulent activity had occurred. The fifth report provided a summary of the Schools Financial Value Standard process which is discussed in more detail below.

One of the schools audited was the subject of a limited assurance audit opinion as a significant number of controls were not operating effectively, which related to budgetary control, purchasing and payroll/staffing. A follow up audit of these issues will be performed in 2018/19.

Further, two of the routine school audits conducted during the first half of 2017/18 identified areas of concern in relation to procurement and contracts, which required more detailed audit work.

Primary School Catering Contract

Internal Audit coordinated and provided support and advice to a Primary School who had procured a new catering contract from a private supplier without following Financial Regulations in Maintained School and Public Procurement Regulations 2015. The ensuing risks to the Council and the School were minimised by Internal Audit coordinating guidance from various departments in the Council (Legal, HR, FM) and working with the school and their legal team, recommending amendments to the signed contract which the school were fortunate to be able to renegotiate with the supplier. This resulted in a mitigation of significant financial and reputational risks to the School and the Council, and secured a better transfer under TUPE for Council staff whom, under the initial contract, were at risk from potential loss of pension rights.

Secondary School – Facilities Management Contract

Health and Safety concerns were identified with a facilities management contractor that was operating at a Secondary School. These concerns initially came to light during a routine school audit when Internal Audit reviewed the process the school had followed in procuring facilities management services from the contractor. The process followed was found to be non-compliant with the required tendering procedures and audit recommendations were made to address this when the contract expired on 31.3.17.

The Secondary School has recently confirmed that it has not yet gone out to tender for the facilities management service provision and as such is still non-compliant with Public Contracts Regulations 2015 and the Guide to Financial Procedures in Schools. Instead, the school extended the existing contract extension for a further year to 31.3.18, due to the impending academisation of the school, which was current at that time but is now on hold.

The School has stated that it intends to undertake a contract and tender process with a new facilities management contract which will begin in April 2018. The School have also stated that any new contract will look to move the contractor's registered office 'off site' (see below), with the school taking back occupation of the building when the existing contract comes to an end, although specific plans of how this will be executed are less clear. Management will need to monitor this situation to ensure that the school follows through with these intentions.

Since the original audit was conducted, further health and safety concerns have been raised at other maintained and academy schools in the district where the contractor is also working. This has recently included an incident at an academy school in the district which caused injury to 12 pupils and two teachers, including one injury which was reported to the Health and Safety Executive. Following this incident, the Council's Health and Safety team have provided advice to the academy to the extent that it is allowed. However, there is a residual risk that the quality of the workmanship from this particular contractor could pose health and safety risks within schools in the District. Internal Audit is also concerned about the reputational risk this poses given that the contractor's registered office is on the same site as a Bradford school.

Schools are free to choose their own contractors but must ensure that any works conducted are in accordance with health and safety regulations. A letter has been issued by the Strategic Director advising schools to exercise caution when choosing contractors, it is expected that schools will take heed of this advice.

Financial Regulations in Maintained Schools

Both of the above audits have highlighted weaknesses concerning procurement in maintained schools. Through being clear about the Council's expectations the message should be reinforced that schools are spending public funds delegated to them by the local authority and, under those delegated powers, spending decisions should be made openly, transparently, in accordance with regulations and with best value principles clearly demonstrated.

To assist in delivering this message, Bradford Council's Financial Regulations in Maintained Schools are currently being updated to ensure that they provide clear and up to date instructions to schools. Once finalised and approved, these regulations should be rolled out and adhered to within schools to assist in promoting sound

financial governance. A follow up piece of audit work to assess compliance with these revised regulations is scheduled for the 2018/19 audit year.

3.2 Schools Financial Value Standard

At the 2017/18 year end all maintained schools were required to complete a self assessment against the Department for Education's Schools Financial Value Standard (SFVS). As at 31 March 2017 SFVS self assessments had been completed by 125 of the Council's 130 maintained schools. The returns received for 2017 show an overall improvement in the standard of completion of the returns and the quality of action plans. The number of late returns also decreased, giving assurance that more schools are engaging with the SFVS process and complying with its requirements.

Further SFVS training will be offered in November 2017 following the success of previous training sessions. Despite the increasing number of schools converting to academy status, Internal Audit are pleased that schools are continuing to attend training and engage with SFVS, thus recognising the benefits that it provides in ensuring effective financial management in schools. Internal Audit's continued approach of focussing on training rather than auditing individual schools' SFVS returns is a more efficient use of resources achieving greater coverage across the district.

4. Grants

Grant certification work is carried out in response to conditions placed on central government targeting of funding to local authorities, for example funding for pot hole repairs on the District's highway network.

The grants requiring certification can vary and change each year. The audit plan for 2017/18 has seen the number of grants requiring review remain the same, however, one grant has ceased while one new grant was required to be reviewed. To date 8 reports have been issued relating to capital and revenue grants which required Internal Audit certification.

The values of the grants varied considerably and conditions also varied and included confirming that targets had been met, that funds had been appropriately spent and that other requirements, such as publication of how the grant had been used, had been complied with.

Overall Internal Audit has been able to give a positive opinion for all grants and consequently no funding has been lost.

5 Computer Audit

For the first half year computer audit continued to be delivered by a specialist computer auditor from Wakefield as part of the joint working arrangement. A report issued early in the year concluded that IT Project Management was good and more recent fieldwork on the security and super user access of two applications indicates that they are mostly effective. Currently it is not clear whether the remainder of the Computer Audit plan will be undertaken in the current year.

6. West Yorkshire Pension Fund (WYPF)

During 2017/18 Internal Audit will carry out a variety of audits in the West Yorkshire Pension Fund (WYPF), in accordance with the annual plan agreed with WYPF management. Reports issued to the 30 September 2017 were in respect of the following:-

- **Review of WYPF 2016/17 Accounts.** This audit is carried out at the request of the Financial Controller to assist in producing accurate, easy to read information within the financial accounts.
- **Additional Voluntary Contribution Arrangements.** Members of the Local Government Pension Scheme have the opportunity of paying extra contributions into the West Yorkshire Pension Fund (WYPF) AVC Plan, which can be arranged with two providers, Scottish Widows or Prudential. This audit examined the arrangements in place for members to pursue this opportunity. No issues were identified as a result of this work.

The pension fund has requested further days audit support as it grows in size and complexity which is being considered for 2018/19.

Appendix B

Unplanned Audit Work Included in and Planned Audit Work Deleted from the Revised 2017/18 Internal Audit Plan as at 30.09.17

Additional unplanned audit work done / propose doing in 2017/18	Reason	Planned audit work proposed not doing in 2017/18	Reason
Verification of Registrar's Spoiled Certificates	Audit requested by Service to confirm the write off of spoiled certificates	Compliance with Corporate Contracts & Frameworks Contract Management Review Procurement other	There is on going support for Procurement in relation to major investigations work.
Payroll Voluntary Deductions	Requested by service manager	Statutory Payments - Sick/Maternity Pay	Low priority
Payroll Apprenticeship Levy	Requested by service manager	HRplus	Low priority/financially immaterial
Housing Advice - Bradford District Tenants & Residents Federation	Service Manager requested financial advice on historic tenant agreements	Looked After Children & Care Leavers	Duplicate coverage provided with the cash purchasing audit
Primary Scholl Catering Issue	Procurement and contracting concerns	Commissioned Care - Residential, Nursing & Respite	Defer as a wider review of commissioned care is required.
Primary School	Potential financial irregularity	Public Health Contracts/Monitoring/Service Delivery	Low priority
Pot Hole Action Fund Grant 16-17	Grant requires audit certification	Highway Flood Recovery Grant	No grant received this year
Troubled Families Outcome Plan	Framework requires Internal Audit to be involved in establishing/revising outcome plan	Capital schemes	Low priority
		Resource Allocation System	Low priority as system is being revised.
		SEN Placements	Low priority as LGA peer review recently performed
		Benefit payments	Audit coverage provided by External Audit's review of the benefit grant

There may be further planned audits for the second half of 17/18 that Internal Audit is unable to perform due to capacity reasons.

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Report of the Strategic Director, Corporate Services to the meeting of the Governance and Audit Committee to be held on 30 November 2017.

Subject:

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Code of Corporate Governance

Summary statement:

Corporate Governance comprises the systems and processes, cultures and values by which the Council is directed and controlled and through which it engages with and leads the community.

The Code of Corporate Governance sets out how the Council will meet and demonstrate its commitment to good Corporate Governance.

Stuart McKinnon-Evans
Strategic Director, Corporate Services

SCRUTINY AREA:

Corporate

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Corporate



1. Introduction

Corporate Governance comprises the systems and processes, cultures and values by which the Council is directed and controlled and through which it engages with and leads the community.

Good governance leads to:

- Good management
- Good performance
- Good stewardship of public money
- Good public engagement
- Good outcomes for citizens and service users
- Good ethical conduct

The Code of Corporate Governance sets out how the Council will meet and demonstrate its commitment to good Corporate Governance.

2. Approach to preparing the Code of Corporate Governance

2.1 The Council's corporate governance framework is based upon the guidance jointly issued by SOLACE and CIPFA in their framework document 'Delivering Good Governance in Local Government' and is recommended as best practice. The framework was revised in 2016. This has required Bradford Council's Code to be updated to comply with the new framework.

2.2 The code has been drawn up following CIPFA/SOLACE's seven core principles of -

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social, and environmental benefits
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability

2.3 Against each of the principles, the Council must demonstrate its commitment and action to deliver.

2.4 The Council's Code of Corporate Governance is attached at Appendix 1.

2.5 The Council has regularly reported to the Council's Governance and Audit Committee on its compliance with the code to demonstrate how it promotes good governance across the Council. Once the new Code has been approved an

exercise will be completed to map the Councils processes and procedure against the new code.

3. **Financial and Resource Appraisal**

There are no direct financial implications arising from this report.

4. **Risk Management**

Risk management issues are referred to in the report and annual governance statement where appropriate. Risk Management is a core element of the corporate governance framework.

5. **Legal Appraisal**

The review and update of the Council's code of corporate governance is necessary to be consistent with the principles of the CIPFA/SOLACE Framework – 'Delivering Good Governance in Local Government' issued in 2016. This framework is intended to be followed as best practice for developing and maintaining an up to date code of corporate governance. Under the Articles of the Constitution of the Council a function of the Governance and Audit Committee is to maintain an overview of the Council's Corporate Governance Framework.

6. **Other implications**

7. **Equal Rights Implications**

There are no equal rights implications

8. **Sustainability implications**

There are no direct sustainability implications

9. **Community safety implications**

There are no direct community safety implications.

10.. **Human Rights Act**

There are no direct human rights implications.

11. **Trade Union**

There are no direct Trade Union implications.

12. **Greenhouse Gas Emissions Impacts**

None

13. **Ward Implications**

None

14. **Not for publication documents**

None

15. **Recommendations**

15.1 That the Governance and Audit Committee approve the amended and updated Code of Corporate Governance to be adopted by the Council.

15.2 The Governance and Audit Committee note that the amended code will be used to help test the effectiveness of the Council's Governance Arrangements in order to inform the production of the Annual Governance Statement.

15. **Appendices**

Appendix 1- Code of Corporate Governance

16. **Background documents**

None.

Bradford Metropolitan District Council

CODE OF CORPORATE GOVERNANCE

Introduction

Corporate Governance is defined as the system by which organisations are directed and controlled. Governance is about how the Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values, by which the Council is directed and controlled and through which we engage with, and where appropriate, lead the community.

Good governance is about:

- Good management
- Good performance
- Good stewardship of public money
- Good public engagement
- Good outcomes
- Good ethical conduct

The Council's corporate governance framework is based upon the guidance jointly issued by SOLACE and CIPFA in their framework document 'Delivering Good Governance in Local Government' and is recommended as best practice.

The Code is based upon the following 7 core principles:

- **Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.**
- **Ensuring openness and comprehensive stakeholder engagement**
- **Defining outcomes in terms of sustainable economic, social, and environmental benefits**
- **Determining the interventions necessary to optimise the achievement of the intended outcomes**
- **Developing the entity's capacity, including the capability of its leadership and the individuals within it**
- **Managing risks and performance through robust internal control and strong public financial management**
- **Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

Each of these principles is an important part of Bradford Council's Corporate Governance arrangements. This statement describes how the Council will meet and demonstrate its commitment to good Corporate Governance.

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Bradford Council is accountable for how much it spends, and for how we use the resources under our stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes we have achieved. In addition, the Council has an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, we can demonstrate the

APPENDIX 1

appropriateness of all our actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Behaving with integrity: the Council will -

- Ensure that members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation
- Ensure that members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)
- Lead by example, using the above standard operating principles or values as a framework for decision making and other actions
- Demonstrate, communicate and embed the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively

Demonstrating strong commitment to ethical values: the Council will -

- Seek to establish, monitor and maintain the organisation's ethical standards and performance
- Underpin personal behaviour with ethical values and ensure they permeate all aspects of the organisation's culture and operation
- Develop and maintain robust policies and procedures which place emphasis on agreed ethical values
- Ensure that external providers are required to act with integrity and in compliance with ethical standards.

Respecting the rule of law: the Council will -

- Ensure that members and staff demonstrate a strong commitment to the rule of the law as well as adhere to relevant laws and regulations
- Create the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements
- Strive to optimise the use of the full powers available to us for the benefit of citizens, communities and other stakeholders
- Deal with breaches of legal and regulatory provisions effectively
- Ensure that corruption and misuse of power are dealt with effectively

B. Ensuring openness and comprehensive stakeholder engagement

Bradford Council is run for the public good, and we want genuine openness in our activities. We will seek to establish clear, trusted channels of communication and consultation. We want to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

Openness: the Council will -

- Ensure an open culture through demonstrating, documenting and communicating the Council's organisation's commitment to openness
- Make decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case the Council will seek to provide a justification for the reasoning for keeping a decision confidential

APPENDIX 1

- Provide clear reasoning and evidence for decisions in both public records and explanations to stakeholders, being explicit about the criteria, rationale and considerations used.
- Ensure that the impact and consequences of those decisions are clear
- Use formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action

Engaging comprehensively with institutional stakeholders: the Council will -

- Engage effectively with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably.
- Develop formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively
- Ensure that partnerships are based on:
 - trust
 - a shared commitment to change
 - a culture that promotes and accepts challenge among partners and that the added value of partnership working is explicit

Engaging effectively with individual citizens and service users: the Council will -

- Establish a clear policy on the type of issues on which we will consult meaningfully with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes
- Ensure that communication methods are effective and that members and officers are clear about their roles with regard to community engagement
- Encourage, collect and evaluate the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs
- Implement effective feedback mechanisms in order to demonstrate how views have been taken into account
- Balance feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity
- Take account of the impact of decisions on future generations of tax payers and service users

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The long-term nature and impact of many of our responsibilities mean that we should define and plan outcomes and that these should be sustainable. Decisions should further the Council's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from our stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.

Defining outcomes: the Council will -

- Have a clear vision, which is an agreed formal statement of our purpose and intended outcomes containing appropriate performance indicators, which provides the basis for our overall strategy, planning and other decisions

APPENDIX 1

- Specify the intended impact on, or changes for our stakeholders including citizens and service users.
- Deliver defined outcomes on a sustainable basis within the resources that will be available
- Identify and manage risks to the achievement of outcomes
- Manage service users' expectations effectively with regard to determining priorities and making the best use of the resources available

Sustainable economic, social and environmental benefits: the Council will -

- Consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision
- Take a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the intended outcomes and short-term factors such as the political cycle or financial constraints
- Determine the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs.
- Ensure fair access to services

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Council must achieve its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice the Council has to make to ensure intended outcomes are achieved. We need robust decision-making mechanisms to ensure that our defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.

Determining interventions: the Council will -

- Ensure decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided
- Consider feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts

Planning interventions: the Council will -

- Establish and implement robust planning and control cycles that cover strategic and operational plans, priorities and targets
- Engage with internal and external stakeholders in determining how services and other courses of action should be planned and delivered
- Consider and monitor risks facing each partner when working collaboratively, including shared risks
- Ensure arrangements are flexible and agile so that the mechanisms for delivering goods and services can be adapted to changing circumstances

APPENDIX 1

- Establish appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured
- Ensure capacity exists to generate the information required to review service quality regularly
- Prepare budgets in accordance with objectives, strategies and the medium term financial plan
- Inform medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy

Optimising achievement of intended outcomes: the Council will -

- Ensure that the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints
- Ensure that the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term
- Ensure that the medium term financial strategy sets the context for decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage
- Ensure the achievement of 'social value' through service planning and commissioning

E. Developing the Council's capacity, including the capability of its leadership and the individuals within it

The Council needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. We must ensure that we have both the capacity to fulfil our own mandate and to make certain that there are policies in place to guarantee that our management has the operational capacity for the Council as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop our capacity as well as the skills and experience of individual staff members. The Council's Leadership is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of our community

Developing the entity's capacity: the Council will -

- Review operations, performance and use of assets on a regular basis to ensure their continuing effectiveness
- Improve use of resources through appropriate application of techniques such as benchmarking and other options in order to determine how resources are allocated so that defined outcomes are achieved effectively and efficiently
- Recognise the benefits of partnerships and collaborative working where added value can be achieved
- Develop and maintain an effective workforce plan to enhance the strategic allocation of resources

Developing the capability of the entity's leadership and other individuals: the Council will -

- Develop protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained
- Publish a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body
- Ensure that the leader and the chief executive have clearly defined and distinctive leadership roles within a structure whereby the chief executive leads in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority
- Develop the capabilities of members and senior management to achieve effective leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:
 - Ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged
 - Ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis
 - Ensure personal, organisational and system-wide development through shared learning, including lessons learnt from governance weaknesses both internal and external
 - Ensure that there are structures in place to encourage public participation
 - Take steps to consider the leadership's own effectiveness, ensuring leaders are open to constructive feedback from peer review and inspections
 - Hold staff to account through regular performance reviews which take account of training or development needs
 - Ensure arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing

F. Managing risks and performance through robust internal control and strong public financial management

The Council must sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk will be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability. It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

Managing risk: the Council will -

- Recognise that risk management is an integral part of all activities and must be considered in all aspects of decision making
- Implement robust and integrated risk management arrangements, ensuring that they are working effectively

APPENDIX 1

- Ensure that responsibilities for managing individual risks are clearly allocated

Managing performance: the Council will -

- Monitor service delivery effectively including planning, specification, execution and independent post implementation review
- Make decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook
- Ensure an effective scrutiny or oversight function is in place which provides constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the Council's performance.
- Provide members and senior management with regular reports on service delivery plans and on progress towards outcome achievement
- Ensure there is consistency between specification stages (such as budgets) and post implementation reporting (eg financial statements)

Robust internal control: the Council will -

- Align the risk management strategy and policies on internal control with achieving objectives
- Evaluate and monitor risk management and internal control on a regular basis
- Ensure effective counter fraud and anti-corruption arrangements are in place
- Ensure additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor
- Ensure an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body, provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment and that its recommendations are listened to and acted upon

Managing data: the Council will -

- Ensure effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data
- Ensure effective arrangements are in place and operating effectively when sharing data with other bodies
- Regularly review and audit the quality and accuracy of data used in decision making and performance monitoring

Strong public financial management: the Council will -

- Ensure financial management supports both long term achievement of outcomes and short-term financial and operational performance
- Ensure well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the Council plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

Implementing good practice in transparency: the Council will -

- Prepare reports for the public and other stakeholders in a fair, balanced and understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate
- Strike a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand

Implementing good practices in reporting: the Council will -

- Report at least annually on performance, value for money and stewardship of resources to stakeholders in a timely and understandable way
- Ensure members and senior management own the results reported
- Ensure robust arrangements for assessing the extent to which the principles contained in this Framework have been applied and publish the results of this assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)
- Ensure that this Framework is applied to jointly managed or shared service organisations as appropriate
- Ensure the performance information that accompanies the financial statements is prepared on a consistent and timely basis and that the statements allow for comparison with other, similar organisations

Assurance and effective accountability: the Council will -

- Ensure that recommendations for corrective action made by external audit are acted upon
- Ensure an effective internal audit service with direct access to members is in place, providing assurance with regard to governance arrangements and that recommendations are acted upon
- Welcome peer challenge, reviews and inspections from regulatory bodies and implement recommendations
- Gain assurance on risks associated with delivering services through third parties and ensure that this is evidenced in the annual governance statement
- Ensure that when working in partnership, arrangements for accountability are clear and the need for wider public accountability has been recognised and met

MONITORING AND REVIEW

The Council has two Committees that are responsible for monitoring and reviewing the Council's Corporate Governance arrangements.

The Governance and Audit Committee is responsible for the Council's arrangements relating to:

- maintaining an overview of the Council's Corporate Governance Framework, Constitution and the partnership arrangements
- approving the Council's Statement of Accounts including the Annual Governance Statement
- approving the annual Internal Audit plan and receiving the Internal Audit Annual Report and monitoring statements throughout the year
- receiving matters of a financial nature referred by External Audit
- reviewing the adequacy of all governance arrangements
- considering the effectiveness of the risk management arrangements within the internal control environment.

The Standards Committee has responsibility for the Council's ethical framework, in particular ensuring high standards of conduct of members and reviewing relevant protocols.

- advising the Council on the adoption or revision of the Members' code of conduct. and assisting members in observing the code
- monitoring the operation of the Members' code of conduct.
- Advising, training, or arranging to train Members of Council, voting co-opted members of Committees and Panels, independent members of the Standards Committee and church and parent governors representatives on matters relating to Members' code of conduct.
- Dealing with any reports from a case tribunal or interim case tribunal ,and any report from the Monitoring Officer on any matter which is referred by an Ethical Standards Officer to the Monitoring Officer.
- Dealing with individual's cases of alleged breaches of the Code
- Dealing with complaints about an alleged failure by Members of Council

Through these Committees the Council will ensure that these arrangements are kept under continual review by:

- the work of Internal Audit
- reports prepared by managers with responsibility for aspects of this code including the Annual Governance Statement and its monitoring
- external audit opinion including their reports
- other review agencies and inspectorates
- opinion from the Council's statutory officers.

The Annual Governance Statement

Each year the Council will publish an Annual Governance Statement. This will provide an overall review of the effectiveness of the Council's governance framework and arrangements including the system of internal control and an appraisal of the key controls in place to manage the Council's principal governance

APPENDIX 1

risks. It will examine evidence supporting compliance with the principles of the Code. The statement will also report significant governance issues arising in areas where the review has identified that further improvements need to be made.