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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Agenda for a meeting of the Governance and Audit Committee to be held on Thursday, 19 September 2019 at 10.00 am in Committee Room 3 - City Hall, Bradford

Members of the Committee – Councillors

LABOUR	CONSERVATIVE	LIBERAL DEMOCRAT
Johnson Thornton Swallow	Pollard	Reid

Alternates:

LABOUR	CONSERVATIVE	LIBERAL DEMOCRAT
Godwin M Slater Watson	Ellis	Stubbs

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
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 June 2019 and 31 July 2019 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. EXCLUSION OF THE PUBLIC

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 25 July 2019 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.

6. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) INVESTMENT ADVISORY PANEL HELD ON 25 JULY 2019

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

In accordance with this requirement, the Director of West Yorkshire Pension Fund will submit **Not for Publication Document "L"** which reports on the minutes of the meeting of the WYPF Investment Advisory Panel held on 25 July 2019.

Recommended –

That the minutes of the West Yorkshire Pension Fund Investment Advisory Panel held on 25 July 2019 be considered.

(Rodney Barton – 01274 432317)

7. MINUTES OF WEST YORKSHIRE PENSION FUND (WYPF) LOCAL PENSION BOARD HELD ON 26 MARCH 2019

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

In accordance with this requirement, the Director of West Yorkshire Pension Fund will submit **Document "M"** which reports on the minutes of the meeting of the WYPF Local Pension Board held on 26 March 2019.

Recommended –

That the minutes of the West Yorkshire Pension Fund Local Pension Board held on 26 March 2019 be considered.

(Caroline Blackburn – 01274 434523)

8. EXTERNAL AUDIT'S ANNUAL AUDIT LETTER FOR THE 2018/19 AUDIT OF THE CITY OF BRADFORD METROPOLITAN DISTRICT COUNCIL (INCLUDING THE WEST YORKSHIRE PENSION FUND)

The External Auditor will submit **Document "N"** which reports on the Annual Audit Letter for 2018/19, it summarises the key findings from the work that has been undertaken for the year ended 31 March 2019 (including the West Yorkshire Pension Fund).

Recommended-

That the Annual Audit Letter for 2018/19 be noted.

(Mark Dalton – 0113 3945316)

9. CORPORATE INVESTIGATIONS UNIT - ANNUAL PERFORMANCE INFORMATION

The Strategic Director, Corporate Resources will submit **Document "O"** which reports on the annual performance information, as required by the Committee, to provide assurance that the Council's counter fraud arrangements are effective.

Recommended-

That the performance information contained within Document "O" be noted.

(Tracey Banfield/Harry Singh – 01274 434794/437256)

10. TREASURY MANAGEMENT MID YEAR REVIEW UP TO 31 AUGUST 2019

The Director of Finance will submit **Document "P"** which reports on the Council's Treasury Mid Year Review up to 31 August 2019.

Recommended-

That the report be noted and referred to Council on the 15 October 2019 for adoption.

(David Willis – 01274 432361)

11. TERMS OF REFERENCE FOR A COMMUNITY GOVERNANCE REVIEW FOR A NEW LOCAL COUNCIL IN THE SHIPLEY WARD

A valid petition requesting a Community Governance Review (CGR) for a proposed new Local Council in the Shipley ward has been received. The Committee must now make arrangements for the CGR, and as a first step must agree its terms of reference.

The City Solicitor will submit **Document "Q"** which summarises the relevant background issues, proposes draft Terms of Reference which is intended to initiate the CGR process.

Recommended-

(1) That the Terms of Reference highlighted in Appendix 1 to Document "Q" for a Community Governance Review for a proposed new Local Council in Shipley be approved subject to any amendments required by the Committee.

(2) That the Committee authorise officers to conduct the Community Governance Review in accordance with the Local Government and Public Involvement in Health Act 2007 and the statutory guidance which relates to it.

(Damian Fisher – 01274 437062)

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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Report of the Director West Yorkshire Pension Fund to the meeting of Governance and Audit Committee to be held on 19 September 2019

M

Subject:

Minutes of West Yorkshire Pension Fund (WYPF) Local Pension Board meeting held 26 March 2019

Summary statement:

The role of the Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 is to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the LGPS.

City of Bradford Metropolitan District Council (the Council), as Scheme Manager, as defined under section 4 of the Public Service Pensions Act 2013, has delegated legal and strategic responsibility for West Yorkshire Pension Fund (WYPF) to the Governance and Audit Committee.

The minutes of the WYPF Pension Board meeting are to be submitted to this committee.

Rodney Barton
Director

Report Contact: Caroline Blackburn
Phone: (01274) 434523
E-mail: caroline.blackburn@bradford.gov.uk

Portfolio:

Leader of Council & Strategic Regeneration

Overview & Scrutiny Area:

Corporate

1. SUMMARY

- The Council's Financial Regulations require the minutes of meeting of WYPF Local Pension Board to be submitted to this committee.

2. APPENDIX

- Minutes of WYPF Local Pension Board 26 March 2019.

City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Minutes of a meeting of the West Yorkshire Pension Fund Pension Board held on Tuesday, 26 March 2019 in Aldermanbury House, Godwin Street, Bradford

Commenced 10.00 am
Concluded 12.05 pm

Present –

Employer Representatives	Member Representatives
Councillor M Slater (Chair) – Bradford **Councillor G Burton – Wakefield** **Councillor J Lewis - Leeds** **Ms R Manning - Employer**	**Mr M Binks – Unison** **Mr C Sykes – Unison** **Mr M Morris - Unite**

Apologies: Gary Nesbitt (GMB)

Councillor in the Chair

14. DISCLOSURES OF INTEREST

All those present who were members or beneficiaries of the West Yorkshire Pension Fund disclosed, in the interests of transparency, an interest in all business under consideration

ACTION: City Solicitor

15. MINUTES

Resolved –

That the minutes of the meeting held on 17 October 2018 be signed as a correct record.

16. INSPECTION OF REPORTS AND BACKGROUND PAPERS

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

17. CHAIR'S NOTE

The Chair expressed the sadness of all members on the death of Councillor Ian Greenwood in November 2018. He paid tribute to Councillor Greenwood's skills, expertise and knowledge of pensions both locally and at a national level. His service to the Bradford District was also commended.

18. MINUTES OF THE WYPF JOINT ADVISORY GROUP (JAG) 31 JANUARY 2019

The report of the Director, West Yorkshire Pension Fund, (**Document "J**") reminded Members that the role of The Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 was to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The Minutes of meeting of WYPF Joint Advisory Group were submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

It was noted that a number of the agenda items from that meeting were included on the agenda under discussion and would be considered in more detail later in the meeting.

Resolved –

That the minutes of the WYPF JAG meeting held on 31 January 2019 be noted.

NO ACTION

19. REVIEW OF THE WYPF PENSION BOARD POLICY DOCUMENTS

Members were reminded that under the Public Service Pensions Act 2013 Local Pension Boards were required to produce and maintain a number of key policy documents.

The policy documents were brought to the Board every two years to ensure they accurately reflected the working of the Board. The last review of the policies was in April 2017. The report of the Director, West Yorkshire Pension Fund, (**Document "K**") presented the latest version of the policies for them to be formally reviewed/endorsed by the Board.

It was reported that the Terms of Office for four of the current Members would come to an end in April 2019. Those Members would need to be re-nominated if they wished to remain on the Board.

The report revealed that a request from a Pension Board Member had been received to review the number of Pension Board meetings held each year. The current Terms of Reference Document, under point 11, currently stated:-

11.1 The Pension Board will normally meet twice a year. The Chair may call meetings more frequently if deemed necessary or if requested on matters considered urgent.

11.2 In exceptional circumstances, meetings can be conducted via communications between members of the Board including telephone conferencing and emails.

The Terms of Reference were appended to Document "K".

It was confirmed that the purpose of the Pension Board was to scrutinise West Yorkshire Pension Fund Joint Advisory Group (JAG) decisions to ensure that they were made in accordance with the law and to secure compliance with rules and regulations. As JAG met only twice per year it was acknowledged that additional meetings may have limited business to discuss.

A number of topics which could be included for discussion at additional meetings were suggested including additional training; the Register of Breaches of Law and the Risk Register.

The majority of Members expressed their support for the request for additional meetings. It was believed that, due to the many external factors affecting pension regulations, including changes to the Local Government Pension Regulations, two extra meetings would allow Members to feel more connected and better able to fulfil their roles. A Member representing a trade union also reported his union's support for the board to meet more often.

The Conflicts of Interest policy; Reporting Breaches procedure and Knowledge and Understanding Framework were also appended to Document "K" and Members were also asked to review and endorse those policies.

Resolved –

(1) That the report be noted.

(2) That the policies contained in Document K be approved.

(3) That it be agreed, without amendment to the Terms of Reference, that meetings of the WYPF Pension Board be arranged four times per year.

ACTION: Director, West Yorkshire Pension Fund

20. LOCAL GOVERNMENT PENSION SCHEME UPDATE

The report of the Director, West Yorkshire Pension Fund (**Document "L")** updated Members on changes to the Local Government Pension Scheme 2014 and provided information on associated issues.

It was explained that On 19 April 2018 the Local Government Pension Scheme (Amendment) Regulations 2018 ("the Amendment Regulations) were laid before Parliament and came into force on 14 May 2018.

In addition to making the technical amendments, previously consulted on, the main changes made by the Amendment Regulations were:

- For members who left the Local Government Pension Scheme before 1 April 2014 to elect to receive payment of their deferred benefits from age 55, with reductions, without having to obtain the consent of their former employer.
- Changes to options available for members with a pre-2014 Additional Voluntary Contribution "pot".

Members were advised of the requirement to refund any surplus on a Scheme employer ceasing its participation in the Local Government Pension Scheme.

It was explained that on 3 October 2018 the Ministry of Housing Communities & Local Government (MHCLG) had issued a policy consultation on technical amendments. Corresponding comments from WYPF were presented in Document "L". Consultation on Fair Deal – Strengthening Pension Protection was reported and it was explained that WYPF would be preparing a response prior to the 4 April 2019 deadline.

The impact of the amendments on organisations with new scheme members was questioned and it was reported that only employers covered by Fair Deal and Best Value Direction would be affected.

In response to questions about Members who had left before 2014 being able to access their pensions before state retirement age it was confirmed that anyone aged 55 or above, subject to reductions, could access their pension.

It was questioned if Members had been informed of the amendments and assurances were provided that the information would be included in the Annual Benefits Statement.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

21. ACTUARIAL VALUATION 2019

The report of the Director, West Yorkshire Pension Fund, (**Document "M**") informed Members that the next triennial actuarial valuation of the West Yorkshire Pension Fund would be prepared based on the situation at 31 March 2019 and would determine the level of employers' contributions from April 2020 onwards.

It was explained that the aim was for a valuation result with a minimal contribution change while keeping the funding risk at an acceptable level. The preferred primary tool for adjustment to achieve the acceptable level of contributions was the assumed rate of investment return. Data would be submitted to the actuary by WYPF in summer 2019. Employers had been reminded that meeting the deadline for the year end returns was essential to ensure that the data submitted to the actuary was as accurate as possible.

A Member raised concerns that the increase in employment contributions for teachers' pensions would be difficult for employers. In response it was explained that the Fund was aware of the situation and would do everything possible to smooth the mechanism if contributions had to be increased.

The report revealed that the Government Actuary must report on a number of aims including consistency and whether the Fund's valuation had been carried out in a way which was not inconsistent with the other fund valuations within the Local Government Pension Scheme. It was questioned if that would affect benchmarking and if any changes to the regulations were expected. In response it was reported that there had been no inconsistencies reported from previous reports and it was not expected there would be any material changes.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

22. MEMBER EARLY RETIREMENT PENSION ESTIMATES

The report of the Director, West Yorkshire Pension Board, (**Document "N**") was presented in response to a Member of the WYPF Pension Board requesting that an item be included on the agenda to address the following statement – "*the removal of estimates for members who are aged 55 and above, which are no longer available on request, is proving problematic for members.*

Members were advised that WYPF had revised the working practices surrounding the provision of early retirement estimates, specifically, to enable priority to be given to those members who were intending to retire immediately, as opposed to those who had no immediate plans to retire.

It was explained that the need for the revision had arisen because of the change in the pension regulations in April 2014 which allowed members to take reduced retirement benefits from age 55. Amendments were needed to some functions of the pensions' administration system to accommodate the change, meaning employers were unable to produce their own pension estimates through the

system. WYPF had always provided all age 65, redundancy and ill health retirement estimates for employers, using accurate pensionable pay provided by the employers. The changes in the regulations had resulted in a considerable increase in the number of requests from employers for early retirement estimates.

It was explained that there were 56,500 people aged over 55 in the WYPF. Consultation had been undertaken with other Pension Funds and it had been established that they had also restricted the estimates provided and some had introduced a charge after one free estimate.

In response to questions about the number of requests for figures which resulted in actual retirement it was explained that many deferred members were merely curious to know how much money was in their pension. There had also been issues with employers requesting estimates for individuals using multiple dates of possible retirement and multiple reasons for retirement. Some requests were received for dates so far in the future they would be affected by pay awards or annual adjustments and the figures would be inaccurate. Assurances were provided that if Members were actually retiring accurate figures would be provided.

In response to suggestions that in addition to additional information being provided on the Annual Benefit Statements the My Pension Website be utilised to allow Members to calculate their own pensions it was confirmed that a modeller for Members to calculate their own broad estimate was in development and should reduce the pressure on employers and the fund.

Following concerns that some members may not understand the additional information contained on their ABS it was acknowledged that pensions were a complex issue. Assurances were provided that communications were always produced in plain English and the queries received were analysed to address any issues arising.

Resolved –

1. **That the workload caused by requests for early retirement pension estimates following changes to the pension regulations be acknowledged.**

2. **That the changes being implemented to the process for dealing with estimate requests be acknowledged.**

3. **That the comprehensive information in the Annual Benefit Statements (ABS) which will go to all members next quarter be noted.**

4. **That the planned review of working practices after the ABS exercise is completed be welcomed.**

ACTION: Director, West Yorkshire Pension Fund

23. CYBER SECURITY

Members were advised that cyber attacks and threats were one of the biggest challenges organisations like WYPF faced. Cyber attacks in recent times had become more specialised and criminals focused on deceptive techniques to target individuals.

The growing trend of attacks has resulted in significant damage to organisations that not only included financial losses and operational disruptions, but also significant reputational damage. In the light of current regulation (e.g. the new General Data Protection Regulation), those risks became particularly relevant for organisations that stored financial information and personal identifiable information about individuals, as was the case for WYPF.

The cyber readiness of WYPF (led by Bradford Council) was, therefore, vital in aiding the ability to detect, prevent, contain and respond to evolving threats in the digital environment, which have had a severe effect in similar institutions.

The Director, West Yorkshire Pension Fund, presented a report, **Document "O**", which reported the importance of cyber security; the consequences of a cyber attack; the types of cyber security threats and elements of cyber security.

Appended to Document "O" was a report on a project carried out on behalf of Bradford Council by Coventry University to assess the cyber security readiness of the Council. The university had conducted a vulnerability test exercise that targeted cyber awareness of the workforce and their ability to make informed decisions when dealing with potential security tests. The findings from that project demonstrated that businesses and Councils were increasingly susceptible to cyber attacks by social engineering although it did reveal that WYPF staff were aware of cyber security and none had opened a scam test email which had been circulated to all staff.

It was reported that WYPF had begun work towards gaining accreditation for ISO 27001:2013 which was the international standard that provided the specification for a best practice information security management system. Assurances were provided that penetration testing was conducted regularly and that training was regularly reviewed and updated.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

24. UPDATE ON THE GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION EXERCISE.

The report of the Director, West Yorkshire Pension Fund, (**Document "P**") provided an update on the current position regarding the Guaranteed Minimum Pension (GMP) reconciliation exercise.

Members were reminded that the exercise was taking place across the pension industry nationally to reconcile pension information held by all private and public sector pension schemes and Her Majesty's Revenue & Customs (HMRC). The aim of the process was to ensure that pension schemes held the correct information regarding members' contracted-out service.

It was explained that WYPF had received a data file from HMRC's scheme reconciliation service listing all active, deferred and pensioner members containing 229,144 records. As WYPF had the expertise in house, unlike some other Funds, the reconciliation process was being done in house making substantial savings on the costs that were being charged in the market place.

The three stages of the process were explained. The first stage included comparisons with the HMRC file and the data held on WYPF's pension administration system. The matching categories and volumes of data were reported. Stage 2 involved uploading data for HMRC response and the number of responses to far were presented. Recommendations on how to deal with discrepancies identified through the process were reported and examples of recalculations and pensions adjustment were discussed. The third stage of the project involved reconciliation of the Pension Payroll and would require the adjustment of pensions in payment. Members were assured that a communication strategy would be developed to ensure pensioners were aware of the impact of any pension adjustments.

In response to questions it was explained that any under or over payments would be communicated to members in the autumn. The Fund was confident, however, in the accuracy of its record keeping.

It was reported that WYPF was also undertaking the reconciliation project on behalf of Lincolnshire Pension Fund and a number of the Fire Authorities which the Fund administered. The increased pressures on the Fund were acknowledged.

Resolved –

That the update contained in Document "P" be noted and the potential additional workloads anticipated from the Guaranteed Minimum Pension (GMP) exercise be acknowledged.

ACTION: Director, West Yorkshire Pension Fund

25. REGISTER OF BREACHES OF LAW

The Director, West Yorkshire Pension Fund, presented **Document "Q**" which reminded 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 (TRP) as soon as was reasonably practicable where that person had 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 Breaches of Law was therefore maintained in accordance with The Pensions Regulators (TPR) requirements and WYPF Breaches procedure and was appended to Document "Q".

The entries on the Register related to either:-

- Late payment of employer contributions which were due to be paid to WYPF by the 19th day of the following month.
- The number of Annual Benefit Statements (ABS) not issued by the 31 August.

The percentage of ABS sent by 31 August (99.6%) was an improvement from 2016 and it was not regarded as of material significance.

During discussions about the employers' contributions which were late it was explained that one of the companies contributions had now been received and another employer was listed in error.

Only one breach had been deemed to be of material significance and had been reported to TPR in September 2018. The details of that breach were discussed. It was reported that the employer had gone into administration in December 2018 and would be asked for the missing contributions. A trade union representative reported his involvement with that company. Assurances were provided that members would not be affected, however, it was suggested to the union representative that his members retain their time slips to maintain accurate records of their working patterns. An update report would be provided to the next meeting.

Resolved –

That the entries on the Register of Breaches of Law, contained in Document "Q" be noted.

ACTION: Director, West Yorkshire Pension Fund

26. THE PENSION REGULATORS RECORD KEEPING AND DATA QUALITY REQUIREMENTS

The report of the Director, West Yorkshire Pension Fund, (**Document "R**") explained that The Pension Regulator's (TPR) Code of Practice 14 and the Public Service Pensions (Record Keeping & Miscellaneous Amendments) Regulations 2014 set out the requirement for public sector pension funds to maintain

comprehensive and accurate data on their members and their members' pension contributions.

The background to the report revealed that in 2018, for the first time, Local Government Pension Funds were required to report on the quality of common and scheme specific data in their Pension Regulatory scheme returns. Funds were also required to annually review their data and implement improvement plans setting out steps to address any issues. A definition of common and scheme specific data was provided.

It was explained that schemes were required to measure their data and consider if the required data was present and accurate. Following that process a data score was calculated. The data quality scores at November 2018 were Common Data 85.8% and Conditional Data 97.86%.

It was reported that some required data was out of the Fund's control as there was a continual problem with members failing to communicate that they had moved address. A tracing agency had been employed to locate members but it was a continuing problem. Assurances were provided that quarterly reports were run to track progress. TPR did not demand that the scores be 100% as long as plans were in place to show improvements. A draft data improvement plan was in development to identify actions to improve data scores and resolve any incomplete or inaccurate data.

Members were advised that, as the regulations provided no set definition of conditional data, the Fund had worked with the Local Government Association to provide a consistent definition. It was expected that by summer more clarity would be provided and the list of conditional data could change.

Resolved –

That the report be noted.

ACTION: Director, West Yorkshire Pension Fund

27. RISK REGISTER

The report of the Director, West Yorkshire Pension Fund (**Document "S**") advised members that West Yorkshire Pension Fund maintained a Risk Register which contained 45 risks that had been identified and framed into scenarios. The risks had been rated and 22 of those were above their acceptable tolerance level and 23 were below the tolerance line.

Information on five risks from the 22 which were above their tolerance level was included in Document "S" and Members were advised of Action Management Plans in place to mitigate and monitor those risks.

In relation to risk of 22, "recruitment and retention of experienced staff in Pensions Administration", it was questioned if job evaluation processes had been conducted. In response it was explained that pooling arrangements could increase the risk in that category. Consultants had conducted a national survey of LGPS administrators pay to provide benchmark figures. The results had

revealed that Bradford was at the bottom of national pay scales areas. As other pools were locating to West Yorkshire there was a risk that staff would be attracted by higher salaries available in nearby locations. The Fund had engaged consultants to commission a review of the structure and remuneration from the Public Sector Benefits & Governance Section of Aon Hewitt. The issue had been reported and discussed at the WYPF Joint Advisory Group in November 2018.

Resolved –

That the five risks and actions to manage and mitigate those risks contained in Document "S" be noted.

ACTION: Director, West Yorkshire Pension Fund

28. TRAINING, CONFERENCES AND SEMINARS

The Director, West Yorkshire Pension Fund, presented a report, (**Document "T**") which informed Members that their training to understand the responsibilities and issues which they would be dealing with was a very high priority. Details of training courses, conferences, seminars and events which may assist Members were contained in Document "T".

It was agreed to communicate additional training courses/events as they became available and Members were asked to advise officers of any further training requirements they would wish to undertake.

In response to questions it was confirmed that, because of the complex nature of pension arrangements, some Members found it very helpful to repeat the Fundamentals training course. Arrangements could be made for any Member wishing to attend events on more than one occasion.

Resolved –

That consideration would be given, by Pension Board members, to attendance at the events contained in Document "T".

ACTION: Director, West Yorkshire Pension Fund

29. MINUTES OF THE WEST YORKSHIRE PENSION FUND (WYPF) JOINT ADVISORY GROUP 1 NOVEMBER 2018

The report of the Director, West Yorkshire Pension Fund, **Document "U**" reminded Members that the role of The Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 was to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The Minutes of meeting of WYPF Joint Advisory Group were submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

Resolved –

That the minutes of the WYPF Joint Advisory Group on 1 November 2018, appended to Document "U" be noted.

ACTION: Director, West Yorkshire Pension Fund

30. EXCLUSION OF THE PUBLIC

Resolved –

That the public be excluded from the meeting during consideration of the item relating to minutes of the West Yorkshire Pension Fund Investment Advisory Panel meetings held on 1 November 2018 and 31 January 2019 because information would be disclosed which is considered to be exempt information within paragraph 3 (Financial or Business Affairs) of Schedule 12A of the Local Government Act 1972 (as amended).

It is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information as it is in the overriding interest of proper administration that Members are made aware of the financial implications of any decision without prejudicing the financial position of the West Yorkshire Pension Fund.

31. MINUTES OF THE WEST YORKSHIRE PENSION FUND INVESTMENT ADVISORY PANEL ON 1 NOVEMBER 2018 AND 31 JANUARY 2019

The report of the Director, West Yorkshire Pension Fund, (**NOT FOR PUBLICATION Document "V**") reminded Members that the role of the Pension Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013 was to assist the Council as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including securing compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS; securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and any other such matters as the LGPS regulations may specify.

The minutes of meeting of WYPF Investment Advisory Panel were submitted to the Pension Board to enable the Board to ensure effective and efficient governance and administration of the LGPS.

Resolved –

That the Not for Publication minutes of the Investment Advisory Panel on 1 November 2018 and 31 January 2019 appended to Document "V" be noted.

ACTION: Director, West Yorkshire Pension Fund

Chair

Note: These minutes are subject to approval as a correct record at the next meeting of the West Yorkshire Pension Fund Pension Board.

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

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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Report of External Audit to the meeting of the Governance and Audit Committee to be held on 19 September 2019

Subject: **N**

External Audit's **Annual Audit Letter** for the 2018/19 audit of the City of Bradford Metropolitan District Council (including the West Yorkshire Pension Fund)

Summary statement:

Our Annual Audit Letter summarises the key findings from the work we have undertaken as the Council's External Auditor for the year ended 31 March 2019 (including the West Yorkshire Pension Fund).

Cameron Waddell
Partner
Mazars LLP
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1. SUMMARY

Our Annual Audit Letter summarises the work we have undertaken as the Council's External Auditor for the year ended 31 March 2019 as required by the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

The Letter builds on our Audit Completion (ISA260) Report (presented to the July Governance and Audit Committee) and although addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholder and on that basis, we encourage the Council to make the Letter available on its website.

The sections of the Letter provide details of our responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements (City of Bradford Metropolitan District Council)	Our auditor's report issued on 31 July 2019 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Audit of the financial statements (West Yorkshire Pension Fund)	Our auditor's report issued on 31 July 2019 included our opinion that the financial statements: • give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2019; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	Our auditor's report issued on 31 July 2019 included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	Our report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019, except for the areas assessed as inadequate by Ofsted in their report on children's social care services in October 2018.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 19 August, we reported to the group auditor in line with the requirements applicable to the Council's WGA return.

Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council. The report also confirmed that we did not exercise any other special powers of the auditor under sections 28, 29 or 31 of the 2014 Act.
Audit of the financial statements included in the Pension Fund Annual Report	On the 31 July we issued our opinion that the Pension Fund financial statements within the Pension Fund Annual Report are consistent with the Council's Statement of Accounts.

2. BACKGROUND

Not applicable

3. OTHER CONSIDERATIONS

None

4. FINANCIAL & RESOURCE APPRAISAL

Not applicable

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

None

6. LEGAL APPRAISAL

Not applicable

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

Not applicable

7.2 SUSTAINABILITY IMPLICATIONS

Not applicable

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

Not applicable

7.4 COMMUNITY SAFETY IMPLICATIONS

Not applicable

7.5 HUMAN RIGHTS ACT

Not applicable

7.6 TRADE UNION

Not applicable

7.7 WARD IMPLICATIONS

Not applicable

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

Not applicable

7.9 IMPLICATIONS FOR CORPORATE PARENTING

Not applicable

7.10 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

Not applicable

8. NOT FOR PUBLICATION DOCUMENTS

None

9. OPTIONS

Not applicable

10. RECOMMENDATIONS

The Governance and Audit Committee is asked to:

- note the Annual Audit Letter

11. APPENDICES

Annual Audit Letter 2018/19 – City of Bradford Metropolitan District Council

12. BACKGROUND DOCUMENTS

None

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Annual Audit Letter

City of Bradford Metropolitan District Council

Year ending 31 March 2019

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CONTENTS

1. EXECUTIVE SUMMARY

Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for City of Bradford Metropolitan District Council (the Council) for the year ended 31 March 2019. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements (City of Bradford Metropolitan District Council)	Our auditor's report issued on 31 July 2019 included our opinion that the financial statements: • give a true and fair view of the Council's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Audit of the financial statements (West Yorkshire Pension Fund)	Our auditor's report issued on 31 July 2019 included our opinion that the financial statements: • give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2019, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2019; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
Other information published alongside the audited financial statements	Our auditor's report issued on 31 July 2019 included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for Money conclusion	Our report concluded that we are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019, except for the areas assessed as inadequate by Ofsted in their report on children's social care services in October 2018.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 19 August, we reported to the group auditor in line with the requirements applicable to the Council's WGA return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council. The report also confirmed that we did not exercise any other special powers of the auditor under sections 28, 29 or 31 of the 2014 Act.
Audit of the financial statements included in the Pension Fund Annual Report	On the 31 July we issued our opinion that the Pension Fund financial statements within the Pension Fund Annual Report are consistent with the Council's Statement of Accounts.

2. AUDIT OF THE FINANCIAL STATEMENTS
CITY OF BRADFORD METROPOLITAN DISTRICT COUNCIL

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Council on 31 July 2019, stated that, in our view, the financial statements give a true and fair view of the Council's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Governance and Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1.8% of Gross Operating Expenditure	£20m
Trivial Threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.6m

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Council's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance and Audit Committee within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits. Our audit methodology incorporates this risk as a standard significant risk at all audits. Based on our cumulative knowledge and planning discussions, we do not consider this risk at the Council to be unusually high or require enhanced audit procedures.	We addressed this risk through performing audit work over: • Accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	There were no matters arising from our work on management override of controls.
Property, plant and equipment valuation - including Investment Property The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. Investment property is valued annually to ensure it reflects market conditions at year end. Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the valuation of PPE because of the significant judgements and number of variables involved in providing valuations.	We considered the Council's arrangements for ensuring that PPE values are materiality fairly stated and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's in-house valuer. We reviewed the scope and terms of the engagement with the Council's in-house valuer and how management used the valuers report to value land and buildings in the financial statements. We also assessed the competence, skills and experience of the Council's valuer; In relation to the assets which have been revalued during 2018/19, we reviewed the valuation methodology used, including testing the underlying data and assumptions. *(continued on next page)*	There were no matters arising from our work on property, plant and equipment valuations.

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
Property, plant and equipment valuation - including Investment Property *(continued)* In addition, as a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value.	We compared the valuation output with market intelligence provided by Gerald Eve, our expert and consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations. We also reviewed the approach that the Council adopted to address the risk that assets not subject to valuation in 2018/19 are materially misstated and considered the robustness of that approach in light of the valuation information reported by the Council's in-house valuers. In addition, we considered movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.	
Defined benefit liability - valuation The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of the West Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. *(continued on next page)*	We reviewed the controls that the Council has in place over the information sent to the Scheme Actuary, including the Council's process and controls with respect to the assumptions used in the valuation. We also: • evaluated the competency, objectivity and independence of the scheme Actuary, AON Hewitt; • liaised with the auditors of the West Yorkshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This included the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate; • reviewed the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This included comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office; and	There were no matters arising from our work on the defined benefit liability valuation.

Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
Defined benefit liability - valuation *(continued)* There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2018/19.	• agreed the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the financial statements.	
Management judgement of useful asset lives and depreciation of property, plant and equipment Property, Plant and Equipment is depreciated over its useful life in the financial statements. Management makes a judgement on asset lives based on factors such as repairs and maintenance. Changes in asset lives could have a significant impact on the amount of depreciation charged to the income and expenditure account.	We have reviewed useful asset lives and tested the underlying calculation of depreciation to ensure they are reasonable and based on reasonable assumptions.	There were no matters arising from our work on management judgement of useful asset lives and depreciation of property, plant and equipment.

Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls.

We identified three internal control deficiency as part of our audit. These were not significant in nature and related to the Council's IT policies. User access and password parameters. Management has agreed to strengthen arrangements to address these control recommendations during 2019/20. We are content with Management's response.

2. AUDIT OF THE FINANCIAL STATEMENTS
WEST YORKSHIRE PENSION FUND

Opinion on the financial statements	Unqualified

The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Pension Fund and whether they give a true and fair view of the Pension Fund's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1% of net assets available to pay benefits	£143.6m
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£4.3m
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Fund Account (using a benchmark of 10% of contributions receivable)	£52.0m

Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Governance and Audit Committee within the audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk by performing audit work in the following areas: ▪ accounting estimates impacting on amounts included in the financial statements; ▪ consideration of identified significant transactions outside the normal course of business; and ▪ journals recorded in the general ledger and other adjustments made in preparation of the financial statements.	Our work provided us with the assurance we sought and did not highlight any material issues.
Valuation of un-quoted investments for which market price is not readily available As at 31 March 2019, the fair value of investments which were not quoted on an active market was £2.1bn, which accounted for 14.5% of the Fund's net investment assets. As prices for these investments are not quoted in active markets, the values used in the accounts are those provided by fund managers. This results in an increased risk of material misstatement.	In addition to our standard programme of work in this area we have: ▪ agreed the valuation to supporting documentation including investment manager valuation statements and cash flows for any adjustments made by the investment manager valuation; ▪ agreed the investment manager valuation to audited accounts. Where these were not available, we agreed the investment manager valuation to other independent supporting documentation; ▪ where audited accounts were available, we checked they were supported by a clear opinion; and ▪ where available, we reviewed any independent control assurance report and confirmed they did not highlight any risks of material misstatement.	Our work provided us with the assurance we sought and did not highlight any material issues.

3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion	Qualified ('except for')

Our approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Council on 31 July 2019, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Council has a Constitution in place which is reviewed annually and provides the framework within which the Executive take decisions in exercise of Council functions. During the year the senior management structure has been refreshed to ensure it remains appropriate to respond to the Council's future plans and challenges. The Council has adopted a Risk Management Strategy and maintains both corporate and service risk registers which identify actions required to mitigate the identified risks. The Council uses corporate and departmental service level performance measures to report and manage service delivery. The quarterly Financial Position Statement reports and associated in year and outturn finance and performance reports, present to the Executive and Corporate Overview & Scrutiny Committee the current and forecast position on performance and finance in relation to the Council's activities – supporting effective decision making. A set of corporate indicators is in place that focuses on key Council priorities. Performance is monitored through Departmental Management Teams, Corporate Management Team with reporting to the Executive and Overview and Scrutiny Committees.	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	The Council delivered a small budget underspend of £1.7 million for 2018/19 and delivered recurrent savings of £13.9m. Whilst the Council has a good track record of achieving savings, having managed to reduce spending by almost £250 million over the past 8 years, £13.5m of the £27.4m of planned savings for 2018/19 were not delivered as intended. Whilst the underachievement against the savings plan for 2018/19 was lower than last year (£22m) it was significantly higher than prior years (£7.9m in 2016-17 and £4.3m in 2015-16). Underachievement was due, in the main, to increased demand for adult and children's services, the increased difficulty in delivering savings as the Council reduces in size and as lower priority areas have already been cut. Notwithstanding the above, the Council recognises that having high levels of underachieved savings has a detrimental impact of the financial health of the Council as savings not delivered in year compound the difficulty in delivering future years' additional savings unless addressed. In response, the Council has: • set a balanced budget for 2019/20 which is underpinned by detailed savings plans; • refreshed it's Medium Term Financial Strategy (MTFS) to recognise that some of the underachieved savings highlighted above will require a longer delivery period and others may not be deliverable given current service demand pressures; • enhanced it's monitoring and reporting arrangements to more quickly identify and tackle emerging financial issues and / or develop compensatory savings; • commissioned external support to help the identification and delivery of required savings and transformation; and • developed a better alignment between budget processes and its purposes, priorities and ambitions as set out in the Council Plan. The Council approved a MTFS for 2020/21 to 2022/23 and beyond which is a key part of the Council's planning and performance framework. The financial outlook remains highly challenging requiring the delivery of significant savings of £16.1m in 2019/20 and £41.3m in 2020/21 including £23.9m of as yet unidentified savings. The MTFS highlights similar levels of required savings in subsequent years through to 2025/26.	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
Working with partners and other third parties	The Bradford District Plan has been developed with key partners and partnerships setting out long-term ambitions for the District and outlines priorities for action. A review of Bradford District Partnerships arrangements has established clear leads for each of the agreed outcomes that form the Council and District's vision. The Council is an active member of a number of strategic delivery partnerships. Through the Health and Wellbeing Board, for example, the Council is a lead member of the Bradford District and Craven Sustainability and Transformation Plan (STP) and the wider West Yorkshire and Harrogate Health and Care Partnership – working to create a strategic health and care economy that supports people to be healthy, well and independent. The Council continues to work with partners and other third parties to explore scope for alternative delivery models with some already in place and others being considered.	Yes

3. VALUE FOR MONEY CONCLUSION

Significant Value for Money risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Completion Report, we reported that we had identified two significant Value for Money risk(s). The work we carried out in relation to significant risks is outlined below.

Risk	Work undertaken	Conclusion
Financial sustainability The Council's medium term financial strategy for the period 2019/20 to 2022/23 sets out the significant financial challenges the Council faces in the medium term. The mid-year finance position statement for 2018/19 indicated that the Council was projecting to overspend totalling £6.1m, which placed further pressure on service delivery and potentially increased the use of reserves to support revenue expenditure. The continuing challenges the Council faces are not new and are not unique to the City of Bradford Metropolitan District Council. However, the challenges do present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financially sustainability over the medium term.	Building on our work in previous years, we reviewed the arrangements the Council has in place for ensuring financial resilience. Specifically, our work included reviewing: • the Council's medium term financial plan to ensure it takes into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors; and • the arrangements in place to monitor progress in delivering the budget and related savings plans.	The Council has revised its medium-term financial strategy for 2020/21 to 2022/23 to ensure it is based on appropriate assumptions (income projections, central government funding, pay and non-pay inflation) and recognises the risks associated with these assumptions. The Council delivered a balanced budget for 2018/19 – delivering a small budget underspend of £1.7m and recurrent savings of £13.9m. Whilst the underachievement against the savings plan for 2018/19 was lower than last year (£22m) it was significantly higher than prior years due, in the main, to increased demand for adult and children's services. The Council recognised these demand pressures early in the financial year and, through its routine monitoring and reporting arrangements, put compensating arrangements in place sufficient to deliver a balanced budget. As highlighted above, the financial outlook remains highly challenging and in response, the Council has further enhanced its MTFS arrangements and its budget monitoring and reporting arrangements.

Significant Value for Money risks (continued)

Risk	Work undertaken	Conclusion
Ofsted inspection: children's social care services In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we are required to consider the reports issued by other regulators. In October 2018, Ofsted reported the results of an inspection of children's social care services and concluded that the overall effectiveness of these services was inadequate. Whilst we are aware that the Council has taken a number of early steps to tackle the issues raised in the Ofsted inspection, there is a risk that the Council's arrangements do not secure the required improvements to this key service or that the improvements are not secured in a timely manner.	We considered the progress made by the Council in response to the October 2018 Ofsted report on children's social care services. This requires an expert judgement and therefore we have relied on the updated commentary from the regulator i.e. Ofsted's monitoring visit report of 4 July 2019.	Ofsted's monitoring visit letter of 4 July 2019 highlights that whilst some progress has been made and some positive improvements secured, there are several areas in which the pace of improvement is slow and insufficient progress has been made. We note the Council intent to ensure improvements are sustainable and embedded rather than 'quick fix'. As Ofsted will not provide an updated assessment until 2020 (when the Council is subject to a full re-inspection) children's social care services continue to be rated as 'inadequate' by Ofsted. As a result, our VFM conclusion will be qualified on an 'except for' basis (i.e. arrangement are in place except for those aspects assessed as inadequate by Ofsted).

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Consistent**
Other information published alongside the audited financial statements	**Consistent**

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Council's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data and to carry out certain consistency tests on the data. We submitted this information to the NAO on 19 August 2019.

Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Council. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

5. OUR FEES

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Governance and Audit Committee in March 2019.

Having completed our work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£142,694	£142,694

Fees for other work

We confirm that we have not undertaken any non-audit services for the Council in the year.

Area of work	2018/19 proposed fee	2018/19 final fee
Housing Benefit Subsidy Claim	£9,210	£9,210*

* Our work on the Housing Benefit Subsidy Claim is not yet completed and consequently the final fee quoted above is still on an estimated basis.

6. FORWARD LOOK

Audit Developments

Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (https://www.nao.org.uk/code-audit-practice/about-code/)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

Financial Resilience

Fair Funding Review

The Council will need to incorporate the impact of the Spending Review, due in the latter half of 2019, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Council recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

Local Authority Financial Resilience Index

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Council to have at least considered the index once it is formally released.

Commercialisation

The National Audit Office intends to publish a report on Commercialisation during 2019. Depending on the appetite for Commercialisation, we would expect the Council to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property; and
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

Financial Reporting

UK Local Government Annual Accounts

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

Lease accounting

The implementation of IFRS 16 *Leases* in the Code is delayed until 1 April 2020. The Council will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

6. FORWARD LOOK

Next year's audit and how we will work with the Council

We will focus our work on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

In the coming year we will continue to:

- liaise with the Council's Internal Auditors to minimise duplication of work;
- attend Governance and Audit Committee meetings and presenting Audit Progress Reports including updates on regional and national developments; and
- host events for staff, such as our Local Government Accounts Workshop.

We will meet officers to identify any learning from the 2018/19 audit and will continue to share our insights from across local government and relevant knowledge from the wider public and private sector.

In terms of the technical challenges that officers face around the production of the statement of accounts, we will continue to work with them to share our knowledge of new accounting developments and we will be on hand to discuss any issues as and when they arise.

The Council has taken a positive and constructive approach to our audit and we wish to thank Members and officers for their support and co-operation during our audit.

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MAZARS

City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Report of the Strategic Director of Corporate Resources to the meeting of the Governance & Audit Committee to be held on 19th September 2019

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Subject:

Corporate Investigations Unit – annual performance information

Summary statement:

The purpose of this report is to:
Present the annual performance information, as required by the Committee, to provide assurance that the Council's counter fraud arrangements are effective.

Joanne Hyde
Strategic Director of Corporate Resources

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Portfolio:

Leader of the Council & Corporate

Overview and Scrutiny Area: Corporate

1. SUMMARY

The purpose of this report is to present the annual performance information, as required by the Committee, to provide assurance that the Council's counter fraud arrangements are effective.

2. BACKGROUND

The Corporate Investigations Unit has reported to Committee, on counter fraud performance, since June 2012. This report represents performance information for the financial year 1st April 2018 to 31st March 2019.

3. OTHER CONSIDERATIONS

3.1 Referral and Investigation

The following table represents the types of fraud investigations closed in 2018/19

**Revenues related fraud refers to, for example, Council Tax liability, Council Tax Single Person discount, Council Tax Reduction scheme, any Business Rates related fraud or any other benefit, discount, allowance administered by the Council.*

Table 1	**No. of cases investigated (as a % of total investigations) for year ending 31st March 2019**	**No. of cases investigated (as a % of total investigations) for year ending 31st March 2018**
Social Care / Direct Payments	**4** (2%)	**4** (2%)
Revenues related*	**45** (22%)	**53** (24%)
Blue Badge	**94** (46%)	**124** (57%)
Grants	**2** (1%)	**4** (2%)
Social Housing Tenancy Fraud	**22** (11%)	**12** (5%)
Procurement	**0**	**2** (1%)
Theft (e.g. Council property, assets)	**5** (2%)	**4** (2%)
Other (e.g. Employee Code of Conduct, Insurance, Cyber Fraud, Pensions)	**34** (16%)	**15** (7%)
TOTAL NUMBER OF CASES INVESTIGATED	**206**	**218**

The number of investigations carried out, overall in 2018/19, compared with 2017/18, remains fairly static, however, there have been some notable changes in the composition of investigations between 2017/18 and 2018/19.

- There has been a reduction in the number of Blue Badge investigations. No proactive "action days" were carried out in 2018/19 compared with 10 in 2017/18, due to investigative resources being diverted into an increased number of employee investigations. (See below)
- There has been a slight increase in the number of Social Housing Tenancy Fraud investigations as there have been more anonymous referrals received and a closer working relationship between the CIU and the Housing Officers at Registered Social Landlords.
- There has been an increase in the number of other investigations, in particular, internal employee investigations. This was as a result of a number of anonymous whistleblowing complaints.

3.2 Summary of investigation outcomes

The following table represents the outcomes from investigations closed

Table 2	**No. of investigations closed 1st April 2018 to 31st March 2019**			**No. of investigations closed 1st April 2017 to 31st March 2018**		
	Employee	**Citizen**	**Total**	**Employee**	**Citizen**	**Total**
Investigations Concluded in the period	*40*	*166*	***206***	*18*	*200*	***218***
Investigations where fraud / corruption theft or other financial irregularity uncovered	*36*	*137*	***173***	*14*	*167*	***181***
Prosecutions	*0*	*21*	***21***	*0*	*27*	***27***
Other sanctions*	*18*	*99*	***117***	*2*	*119*	***121***
Dismissals**	*8*	*n/a*	***8***	*4*	*n/a*	***4***

**Cautions, fines, warnings, management expectation letters or social housing properties recovered*
*** Including resignations prior to hearing*

Table 2 above demonstrates that the outcomes from investigations, closed in the financial year 2018/19, are similar to the outcomes in 2017/18 with the exception of employee dismissals and other employee sanctions which have increased due to the reasons described in para 3.1 of this report.

Of the investigations where fraud, theft, corruption and/or other financial irregularity was found, 84% resulted in a prosecution or other sanction. The 16% of all cases investigated in 2018/19 where no fraud theft, corruption and/or other financial irregularity was found is comparable with 17% in 2017/18.

3.2.1 Other sanctions

This refers to cautions, written warnings (including first written warnings for blue badge cases), administrative fines, management expectation letters issued to employees and Social Housing properties recovered. In 2018/19, as in previous years, these were the most common form of sanction in cases where fraud, corruption, theft and/or other financial irregularity were found.

3.2.2 Financial Investigation

Financial Investigation is an important tool in the fight against crime and it can provide valuable new avenues for investigations so we continue to integrate financial investigation across investigative processes in order to enhance the quality of investigations, disrupt criminality, protect communities and build public trust and confidence sending a strong message to both criminals and the community that “crime will not pay”.

Where an investigation into fraud, corruption, theft or other financial irregularity is considered to be likely to result in a conviction, the Corporate Investigations Unit will refer all suitable cases to West Yorkshire Joint Services for financial investigation (normally, but not limited to, those cases where the estimated loss is £5,000 or more) with a view to recovering monies, or property, obtained as a result of criminal activity or criminal lifestyle. When appropriate, applications will be made to the Courts for restraint orders to freeze and stop the offender from dissipating assets. The Council will seek to recover assets by means of supporting confiscation order proceedings under the Proceeds of Crime Act 2002 and/or the Criminal Justice Act 1988.

Since the last report to the Committee, the Corporate Investigations Unit have had 1 successful confiscation hearing ordering confiscation of just over £138,000, of which BMDC will in due course be awarded their share (around £10,000 in compensation and a further £17,000 in confiscation).

3.2.3 Employee investigations

Investigations into allegations of fraud, corruption, theft and/or any other financial irregularity by Council employees have historically been small in number and accounted for only a relatively low percentage of the total investigations carried out by the Corporate Investigations Unit, however, as described in paragraph 3.1, the Corporate Investigations Unit have been involved in a number of investigations in one Service area, the majority of which have now been concluded.

3.2.4 Working in partnership

The Council's Legal Services team has been a key partner in the Council's counter fraud approach as it has provided specialist advice, support and services and ensured compliance with all relevant legislation pertaining to the prevention, detection and investigation of fraud, corruption and theft (for example the Police and Criminal Evidence Act 1984, Criminal Procedures and Investigations Act 1996, Regulation of Investigatory Powers Act 2000, Data Protection Acts 1998 and 2018 and the General Data Protection Regulations).

3.2.5 Working with the Department for Work and Pensions (Counter Fraud Compliance & Debt Service)

Whilst the Council no longer has responsibility for investigating Housing Benefit fraud the Corporate Investigations Unit continues to work with the DWP to jointly combat fraud in Housing Benefit and Bradford Council's Council Tax Reduction scheme (CTR).

During the financial year 2018/19 – 34 cases were investigated jointly with the DWP resulting in 10 successful prosecutions, 2 administrative penalties and there are a further 12 cases where prosecution action has been agreed and the cases are awaiting a court hearing date.

3.2.6 Working with Registered Social Landlords

Bradford Council continues to be an active member of the Yorkshire and Humberside Tenancy Fraud Forum where we are able to share expertise and best practice with other Local Authorities around the region for tackling Social Housing Tenancy Fraud (SHTF) as well as establishing relationships with other parties working in the field, including Housing Providers.

The CIU has developed a working relationship with a number of social landlords in Bradford and we continue to work collaboratively investigating allegations of Tenancy Fraud. The CIU have delivered 23 SHTF training/awareness sessions to the employees of registered providers since April 2014 and have carried out numerous investigations into SHTF and to date 43 properties have been returned for rightful occupation.

4. FINANCIAL & RESOURCE APPRAISAL

During the financial year the Corporate Investigations Unit identified losses to the public purse amounting to in excess of £463,000. Of this around £385,000 was actual recoverable financial overpayments obtained through fraud, theft or other financial irregularity and the remaining a notional loss* from recovering properties, subject to tenancy fraud and preventing the misuse and abuse of Disabled Persons Parking (Blue Badge).

*National Fraud Authority notional loss £18,000 per annum per property relating to Social Housing Tenancy Fraud and National Fraud Authority notional loss £575 relating to Disabled Persons Parking Misuse

Additionally through the financial investigation work carried out by the Corporate Investigation Unit, £163,508 was paid to the Council, in 2018/19, in confiscation and compensation orders awarded under the Proceeds of Crime Act.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

There were some corporate risks identified in respect of employee time recording and employee compliance with flexible working schemes which have been referred to Internal Audit to ensure the appropriate controls are in place

6. LEGAL APPRAISAL

There are no legal issues arising from the contents of this Report.

The Council has a power under section 222 Local Government Act 1972 to bring legal proceedings before the Court ‘’in the interests of the inhabitants of its district.” The Council would not prosecute if there is insufficient admissible and cogent evidence to support a realistic prospect of conviction and/or it is not in the public interest to prosecute.

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

There are no equality and diversity implications

7.2 SUSTAINABILITY IMPLICATIONS

There are no sustainability implications

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

None

7.4 COMMUNITY SAFETY IMPLICATIONS

The reduction of all crime, including fraud, corruption and /or theft, contributes to improving community safety.

7.5 HUMAN RIGHTS ACT

The Council’s current counter fraud approach complies with the Human Rights Act, in particular in relation to surveillance and the right to privacy. All surveillance operations are required to be formally approved in compliance with the Regulation of Investigatory Powers Act and Council protocols, however, there were no surveillance applications requested during 2018/19.

7.6 TRADE UNION

There are no trade union issues from the contents of this Report.

7.7 WARD IMPLICATIONS

Counter fraud information is available by ward area, excluding employee investigations, if required.

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

N/A

7.9 IMPLICATIONS FOR CORPORATE PARENTING

N/A

7.10 ISSUES ARISING FROM PRIVACY IMPACT ASSESSMENT

None

8. NOT FOR PUBLICATION DOCUMENTS

None

9. OPTIONS

N/A

10. RECOMMENDATIONS

That the Committee notes the performance information contained within this report.

11. APPENDICES

None

12. BACKGROUND DOCUMENTS

None

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City of BRADFORD METROPOLITAN DISTRICT COUNCIL

Report of the Director of Finance to the meeting of Governance and Audit to be held on 19 September 2019

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Subject:

Treasury Management Mid Year Review up to 31 August 2019

Summary statement:

This report shows the Council's Treasury Mid Year Review up to 31 August 2019.

Chris Chapman
Director of Finance

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Portfolio:
Leader of the Council and Corporate

Overview & Scrutiny Area:
Corporate

Treasury Management Review up to 27th August 2019

1.1 Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure 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 optimising 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, and 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 2017) 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 (stewardship 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 2019/20 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.

- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the Council's borrowing strategy for 2019/20.
- A review of any debt rescheduling undertaken during 2019/20.
- A review of compliance with Treasury and Prudential Limits for 2019/20.
- A review of the Council's investment portfolio for 2019/20.

2 Economics and interest rates

2.1 Economics update

UK. After only tepid annual economic growth of 1.4% in 2018, growth in quarter 1 was unexpectedly strong at 0.5%. However, this was boosted by stock building ahead of the original March Brexit deadline so quarter 2 is now expected to be zero or slightly negative.

After the Monetary Policy Committee (MPC) raised Bank Rate from 0.5% to 0.75% in August 2018, it is little surprise that they have abstained from any further increases since then. We are unlikely to see any further action from the MPC until the uncertainties over Brexit clear. If there were a no deal exit, it is likely that Bank Rate would be cut in order to support growth. Nevertheless, the MPC does have concerns over the trend in wage inflation which peaked at a new post financial crisis high of 3.5%, (excluding bonuses), in the three months to December before falling marginally to 3.4% more recently. Growth in employment fell to only 32,000 in the three months to April, well below the 2018 average, while the unemployment rate remained at 3.8%, its lowest rate since 1975. Correspondingly, the total level of vacancies has risen to new highs.

As for CPI inflation itself, this rose slightly to 2.1% in April before falling back again to 2.0% in May and staying the same in June, and is likely to remain around this level over the next two years. If there was a no deal Brexit though, it could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.

The rise in wage inflation and fall in CPI inflation is good news for consumers as their spending power is improving in this scenario as the difference between the two figures is now around 1.3%, i.e. a real terms increase. Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

Brexit. The Conservative minority government has elected Boris Johnson as their new leader and is aiming for Brexit to happen by, or on, 31 October, even if there is no deal. However, it is unclear if there will be majority support in the Commons for any option. If there was a stalemate in the Commons, then that would increase the chances of a general election in 2019; this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up.

USA. President Trump's massive easing of fiscal policy in 2018 fuelled a (temporary) boost in consumption in 2018 which generated an upturn in the rate of growth to 2.9% for 2018, just below his target of 3%. Growth in quarter 1 of 2019 was a strong 3.1% but current expectations are for this to weaken considerably in quarter 2. The strong growth in employment numbers during 2018 has faded more recently, indicating that the economy is cooling, while inflationary pressures are also weakening. After the Fed increased rates by 0.25% in December to between 2.25% and 2.50%, market expectations have swung to

now expecting the Fed to cut rates by 1.0% - 1.25% in total to counter the expected downturn in growth. The Fed did cut rates by 0.25% on the 31st July.

The US tariff war with China has increased over the last few days. This is not good news for China which is already facing a slowdown in its rate of economic growth. Many forecasters are not expecting that this will be the last increase in tariffs as China is likely to dig its heels in even more. It will also impact on the US economy and especially on developing economies dependent on exporting commodities to China.

EUROZONE. The annual rate of growth for 2018 was 1.8% but is expected to fall to possibly around half that rate in 2019. The European Central Bank (ECB) ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth. At its March meeting it said that it expected to leave interest rates at their present levels “at least through the end of 2019”, but that was of little help to boosting growth in the near term. Consequently, it announced a third round of Targeted Long Term Refinancing Operations (TLTROs); this provides banks with cheap borrowing every three months from September 2019 until March 2021 which means that, although they will have only a two-year maturity, the Bank is making funds available until 2023, two years later than under its previous policy. As with the last round, the new TLTROs will include an incentive to encourage bank lending, and they will be capped at 30% of a bank’s eligible loans. However, the downturn now appears to be gathering momentum so market expectations have moved on to expecting possibly a small increase in the deposit rate from -0.4% to -0.5% and a resumption of quantitative easing, but possibly more focused on purchases of corporate debt than government debt.

CHINA. 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. It has been struggling to stimulate consistent significant GDP 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.

WORLD GROWTH. The trade war between the US and China on tariffs is a major concern not only to financial markets and China itself, but also for world growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US, though this is probably overblown. These concerns have resulted in government bond yields in the developed world falling significantly during 2019, which has then caused equity prices to rise. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, (apart from the US), and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks.

2.2 Interest rate forecasts

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

Link Asset Services Interest Rate View											
	Sep19	Dec19	Mar20	Jun20	Sep20	Dec20	Mar21	Jun21	Sep21	Dec21	Mar22
Bank Rate View	0.75	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3mth LIBID	0.70	0.70	0.70	0.70	0.8	0.9	1.00	1.00	1.00	1.10	1.20
6mth LIBID	0.80	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12mth LIBID	1.00	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB rate	1.20	1.30	1.50	1.60	1.70	1.70	1.80	1.90	2.00	2.00	2.10
10yr PWLB rate	1.50	1.60	1.80	1.90	2.00	2.00	2.10	2.20	2.30	2.30	2.40
25yr PWLB rate	2.10	2.30	2.40	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00
50yr PWLB rate	2.00	2.20	2.30	2.40	2.50	2.60	2.60	2.70	2.80	2.90	2.90

After the August 2018 increase in Bank Rate to 0.75%, the first above 0.5% since the financial crash, the MPC has put any further action on hold, probably until such time as the fog of Brexit has cleared. The above forecast, and other comments in this report, is based on a central assumption that there will be some form of muddle through agreement on a reasonable form of Brexit. Bank Rate forecasts will have to change if this assumption does not materialise e.g. a no deal Brexit on 31 October could well prompt the MPC to do an immediate cut of 0.5% in Bank Rate back to 0.25%. All other forecasts for investment and borrowing rates would also have to change.

The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture.

One risk that is both an upside and downside risk is that all central banks are now working in very different economic conditions than before the 2008 financial crash. There has been a major increase in consumer and other debt due to the exceptionally low levels of borrowing rates that have prevailed for eleven years since 2008. This means that the neutral rate of interest in an economy, (i.e. the rate that is neither expansionary nor deflationary), is difficult to determine definitively in this new environment, although central banks have made statements that they expect it to be much lower than before 2008. Central banks could, therefore, over or under-do increases in central interest rates.

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

- Brexit – if it were to cause significant economic disruption and a major downturn in the rate of growth.

- The Bank of England takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the Eurozone sovereign debt crisis, possibly Italy, due to its high level of government debt, low rate of economic growth and vulnerable banking system, and due to the election in March 2018 of a government which has made a lot of antiausterity noise. The EU has had sharp disagreements in successive years with Italy over setting a budget within the limits of EU rules. The rating agencies have already downgraded Italian debt to one notch above junk level. If Italian debt were to fall below investment grade, many investors would be unable to hold Italian debt. Unsurprisingly, investors are becoming increasingly concerned by the actions of the Italian government and consequently, Italian bond yields have risen – at a time when the government faces having to refinance over €200bn of debt maturing in 2019. However, the biggest concern is the major holdings of Italian government debt held by Italian banks and insurers. Any downgrading of such debt would cause Italian bond prices to fall, causing losses on their portfolios, so reducing their capital and forcing them to sell bonds – which, in turn, would cause further falls in their prices etc. This is the so called 'doom loop'. Due to the Italian government's already high level of debt, it would not be able to afford to bail out the banking system. Portugal faces the same problem as its debt is also only one notch above junk level.

- Weak capitalisation of some European banks, particularly Italian banks.

- German minority government. In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the antiimmigration AfD party. Then in October 2018, the results of the Bavarian and Hesse state elections radically undermined the SPD party and showed a sharp fall in support for the CDU. As a result, the SPD had a major internal debate as to whether it could continue to support a coalition that is so damaging to its electoral popularity. After the result of the Hesse state election, Angela Merkel announced that she would not stand for re-election as CDU party leader at her party's convention in December 2018. However, this makes little practical difference as she has continued as Chancellor, though more recently concerns have arisen over her health.

- Other minority EU governments. Sweden, Spain, Portugal, Netherlands and Belgium all have vulnerable minority governments dependent on coalitions which could prove fragile.

- Italy, Austria, the Czech Republic and Hungary now form a strongly anti-immigration bloc within the EU. There has also been rising anti-immigration sentiment in Germany and France.

- The increases in interest rates in the US during 2018, combined with an on-off potential trade war between the USA and China, sparked major volatility in equity markets during the final quarter of 2018 and into 2019. Some emerging market countries which have borrowed heavily in dollar denominated debt could be particularly exposed to investor flight from equities to safe havens, typically US treasuries, German bunds and UK gilts.

- There are concerns around the level of US corporate debt which has swollen massively during the period of low borrowing rates in order to finance mergers and acquisitions. This has resulted in the debt of many large corporations being downgraded to a BBB credit rating, close to junk status. Indeed, 48% of total investment grade corporate debt is rated at BBB. If such corporations fail to generate profits and cash flow to reduce their debt levels as expected, this could tip their debt into junk ratings which will increase their cost of financing and further negatively impact profits and cash flow.

- Geopolitical risks, for example in North Korea, but also in Europe and the Middle East, which could lead to increasing safe haven flows.

- Concern over possible recession in the major economics.

- Upside risks to current forecasts for UK gilt yields and PWLB rates.

- Brexit – if agreement was reached all round that removed all threats of economic and political disruption between the EU and the UK.

- The Bank of England is too slow in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

- UK inflation, whether domestically generated or imported, returning to sustained 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 2019/20 was noted by Governance and Audit on 14th March 2019 and passed through for approval by the Council on 19th March. 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.
- How these plans are being financed.
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow.
- 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. Councillor and Officer Challenge sessions

on the capital budget have taken place recently and the revised estimate is based on increased scrutiny of the schemes within the capital programme.

Capital Expenditure	2019/20 Original Estimate £m	Current Position 31 Aug 2019 £m	2019/20 Revised Estimate £m
Total capital expenditure	£146.5	£35.6	£114.3

2.4.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2019/20 Original Estimate £m	2019/20 Revised Estimate Q1 £m
Total capital expenditure	£146.5	£114.3
Financed by:		
Capital receipts	£7.1	£3.5
Capital grants	£65.7	£62.4
Capital reserves	£1.1	£1.1
Revenue	£1.1	£1.3
Total financing	£75.0	£68.3
Borrowing requirement	**£71.5**	**£46.0**

Projected changes to the Capital Programme have resulted in a reduced new borrowing requirement of £25.5m.

2.4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table over shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The table over shows the expected debt position over the period, which is termed the Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed.

	2019/20 Original Estimate £m	2019/20 Revised Estimate Q1 £m
Prudential Indicator – Capital Financing Requirement		
Total CFR	£764	£727
Net movement in CFR		-£37
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	£410	£343
Other long term liabilities	£190	£158
Total debt (year end position)	**£590**	**£501**

2.4.4 Limit 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 CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

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

	2019/20 Original Estimate £m	Current Position 31 August £m	2019/20 Revised Estimate £m
Borrowing	£384	£327	£343
Other long term liabilities	£158	£158	£158
Total debt	**£542**	**£485**	**£501**
CFR (year end position)	£764		£727

A further prudential indicator controls the overall level of borrowing. This 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	**2019/20 Original Indicator £m**	**2019/20 Revised Estimate £m**
Borrowing	£430m	£343
Other long term liabilities	£200m	£158
Total	**£630**	**£501**

2.4.5 Borrowing

The Council's capital financing requirement (CFR) for 2019/20 is expected to be below the original forecast of £764m; due to changes in the profiling of capital spend. 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 currently has borrowings of £485m and has utilised cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

The current context, though, is that the Council's cash balances are reducing and there is a future draw on cash from the Capital Investment Plan. Based on the revised estimate for capital expenditure current projections are that the Council would need to borrow £46m this year. Cash balances and capital spend will be closely monitored and projected forward. If it is felt that cash balances are getting too low or likely to be too low in the future, borrowing is undertaken in appropriate tranches. In deciding the appropriate tranches of borrowing, caution is exercised in projecting forward capital spending.

£5.6m of loans have matured in July and August 2019 with an average rate of interest of 6.7% and a further £11.5m is due to mature in February 2020. £20m of new borrowing was undertaken on the 29 August 2019 to finance commitments in the capital plan. This is reflected in the borrowing position shown as at the 31 August. Two loans were completed for £10m and an additional loan for £15m was completed on the 3rd September. The average rate of interest on the three loans is 1.6%.

The table below show the movement in PWLB certainty rates up to the 30th August:

PWLB rates have been on a falling trend up to the 30th August. This fall has been largely caused by a reduction in US and European yields as investors have become increasingly concerned that economics around the world could be moving into recession. The 50 year PWLB target (certainty) rate for new long term borrowing started at 2.24% and fell to a low of 1.67% on the 16th August.

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
30/08//2019	1.24%	1.09%	1.24%	1.82%	1.68%
Low	1.22%	1.06%	1.23%	1.77%	1.67%
Date	29/08/19	29/08/19	29/08/19	16/08/19	16/08/19
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/19	17/04/19	17/04/19	17/04/19	17/04/19

2.4.6 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 2019/20

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. As shown by forecasts in section 2.2, 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 0.75% Bank Rate. The continued uncertainty over Brexit and 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 and the fact that the next move maybe a fall in interest rates rather than a increase and that base rates are unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.

The Council held £22.6m of investments as at 30th August 2019 (£56.9m at 31 March 2019) and the investment portfolio yield for the first 5 months of the year is 0.91% against a benchmark of 0.56%.

The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first 5 months of 2019/20.

The Council's budgeted investment return for the year to date is expected to be below budget.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

2.6 Other areas for consideration

2.6.1 None

3. Other considerations

3.1 None

4. Financial and Resources Appraisal

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

5. Risk Management and Governance Issues

5.1 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: That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or new borrowing (Liquidity risk).

Mitigation: Ensuring that a minimum proportion of investments are held in short term investments for cash flow purposes.

Risk: Increase in the net financing costs of the Council 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).

Risk: Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.
Mitigation: To pause, delay or defer capital schemes. Also review opportunities to borrow in the future at current interest rates.

Risk: Return on non-treasury investments lower than expected.
Mitigation: Review and analysis of risk prior to undertaking non-treasury investments.

Risk: The Council's Minimum Revenue Policy charges an insufficient amount to the Revenue Estimates to repay debt.
Mitigation: Align the Minimum Revenue Policy to the service benefit derived from the Council's assets.

Risk: Associated with cash management, legal requirements and fraud.
Mitigation: These risks are managed through:

- Treasury Management Practices covering all aspects of Treasury management procedures including cash flow forecasting, documentation, monitoring, reporting and division of duties.
- All Treasury management procedures and transactions are subject to inspection by internal and external auditors. The council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

The Council also employs external financial advisors to provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

Risk: Anticipated borrowing is lower than expected because the 2019/20 capital programme is underspent. This is explained in more detail below, together with the actions being taken to reduce these risks:
Mitigation: The Council is required to set a balanced budget for its revenue estimates; so in broad terms, income received will match expenditure over the 2019/20 financial year. The 2019/20 revenue estimates cause only temporary cash flow differences, for example when income is received in a different month to when the expenditure is incurred.

However, the 2019/20 capital budget will cause a cash flow shortfall in the long term, which generates a borrowing requirement. While some of the capital budget is funded immediately, mainly with Government grants, other elements are not funded initially, leading to the cash flow deficit that requires borrowing.

Managing borrowing is part of the Treasury Management role. To help in its management, the Treasury Strategy identifies the element within the capital budget that is not funded straightaway, to anticipate the Council's borrowing requirement.

However, when the capital budget is underspent, the Council has a lower borrowing requirement than anticipated. This risk is managed in practice because the Council only borrows when there is an actual cash flow shortage.

However, the uncertainty around spend against the capital budget makes cash flow management more difficult. For example, it is less likely that the Council would take advantage of a short-term fall in interest rates, without more certainty around the timing of any borrowing need. Actions that have taken place to manage the risks relating to this uncertainty in the timing of capital spend are: Councillor and Officer challenge sessions on the capital budget; increased scrutiny of the capital forecasts in the quarterly monitoring, and the collection of additional documentation around the critical paths of individual schemes.

6. Legal Appraisal

6.1 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

7.8 Implication for Corporate Parenting – no direct implications

7.9 Issues arising from Privacy Impact Assessment– no direct implications

8. Not for publications documents

8.1 None

9. Options

9.1 None

10. Recommendations

10.1 That the report be noted by the Governance and Audit Committee and passed to full council on the 15th October 2019 for adoption.

11. Appendices

Appendix 1Prudential and Treasury Indicators as at 27th August 2019

12. Background Documents

Treasury Management Schedules

Treasury Management Practices

Treasury Policy

APPENDIX 1: Prudential and Treasury Indicators as at 31st August 2019

Treasury Indicators	**2019/20 Budget £m**	**(Apr - Aug) Actual £m**
Authorised limit for external debt	£630m	£630m
Operational boundary for external debt	£590m	£590m
Gross external debt	£542m	£485m
Upper limit for principal sums invested over 365 days	£20m	£0m

Maturity structure of fixed rate borrowing -	**Upper Limit**	**(Apr-Aug) Actual**
Under 12 months	20%	3%
12 months to 2 years	20%	1%
2 years to 5 years	50%	8%
5 years to 10 years	75%	18%
10 years and above	90%	70%

Prudential Indicators	**2019/20 Budget £m**	**2019/20 Revised Estimate £m**
Capital expenditure (Revised Budget)	£146.5m	£114.3m
Capital Financing Requirement (CFR)	£764m	£727m
Ratio of financing costs to net revenue stream	14.5%	14.5%

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Report of the City Solicitor to the meeting of Corporate Governance and Audit Committee on Thursday 19th September 2019

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Subject:

Terms of reference for a Community Governance Review for a new Local Council in the Shipley ward

Summary statement:

This Council has received a valid petition requesting a Community Governance Review (CGR) for a proposed new Local Council in the Shipley ward. The Committee must now make arrangements for the CGR, and as a first step must agree its terms of reference. This report summarises the relevant background issues and proposes draft Terms of Reference; and is intended to initiate the CGR process.

Parveen Akhtar
City Solicitor
Phone (01274) 432496

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Phone: (01274) 437062
E-mail: damian.fisher@bradford.gov.uk

Portfolio:

Leader of Council and Corporate

Overview & Scrutiny Area:

Corporate

1. SUMMARY

1.1 This Council has received a valid petition requesting a Community Governance Review (CGR) for a proposed new Local Council in the Shipley ward. The Committee must now make arrangements for the CGR, and as a first step must agree its terms of reference. This report summarises the relevant background issues, proposes draft Terms of Reference and is intended to initiate the CGR process.

2. BACKGROUND

2.1 In 2018 a group of residents from the Shipley area formed a group called Campaign for Shipley Town Council (CSTC) - with the purpose of raising interest in a new Local Council for Shipley Ward. Following the receipt of a petition, City of Bradford Metropolitan District Council (the Council) will undertake a Community Governance Review (CGR) of polling districts 22B, 22C, 22D and 22E within the Shipley ward. 22A is part of Baildon Town Council.

2.2 The petition area contained 10,429 local government electors at the date the petition was submitted, and therefore required at least 782 signatories to be valid. The petition attracted 999 valid signatures, and so it will now trigger a Community Governance Review in accordance with the Local Government and Public Involvement in Health Act 2007. Although they have no special status for the purposes of the CGR, a copy of related submissions put forward by local government electors will be available for inspection at Shipley Library or at http://www.cstc.uk/wp-content/uploads/2019/08/CSTC-Petition-Submission-Supporting-Information-FINAL-2019-05-29.pdf

2.3 A map identifying the position of the proposed new parish is attached in Appendix 1 and forms a reference document for the draft terms of reference.

Community Governance Review

2.4 The CGR requires Bradford Council to make suitable arrangements to review and make recommendations relating to the changes to local governance arrangements proposed within the petition. The review is subject to the overriding criteria that the local governance arrangements to be secured within the area under review reflect the identities and interests of the community in that area, and secure effective and convenient local government.

2.5 In undertaking the review, the Council must have due regard to the relevant parts of the Local Government and Public Involvement in Health Act 2007, the relevant parts of the Local Government Act 1972 and Guidance on Community Governance Reviews issued by the Department of Communities and Local Government and the Electoral Commission.

2.6 The first requirement of the CGR is to establish Terms of Reference outlining

the issues that the CGR will deal with and how it will be run. A suggested draft document is shown in Appendix 1. This will need to be considered by the Committee and then, if agreed, be formally adopted by it as the basis for the CGR.

2.7 The conduct of the CGR is the responsibility of the Governance and Audit Committee, which is required to determine its own procedure and consultation arrangements.

3 OTHER CONSIDERATIONS

3.1 None.

4. FINANCIAL & RESOURCE APPRAISAL

4.1 Local Parish Councils are independent bodies which run their own affairs. However Bradford Council acts as the billing authority for any precept charged by them. The Bradford Council and Local Councils Charter sets out all other matters regarding mutual financial arrangements.

4.2 The operating and administrative costs of the CGR will include notional charges for various officers across the Authority. At this early stage the likely expenses include costs of sending letters to householders in the area, and any other person or body who appear to have an interest at an estimated cost of £3,000.00.

4.3 In the event that the CGR results in a recommendation that a new Local Council should be formed then:

i) A new Local Council would be formally constituted after the first elections are held, and

ii) Bradford Council would set a 2020-21 local precept on its behalf at the Council Budget Meeting in February 2020.

4.4 Bradford Council would continue to cover the costs of Parish Council elections and, through its Standards Committee, arrangements for dealing with alleged breaches of the Council's Member Code of Conduct. This requires it to meet the full cost of the first election of a new Local Council and subsequently 100% of the costs of local polling and count stations for elections held on the same day as Bradford Council elections. Under these arrangements Local Councils pay 50% of shared costs (excluding the costs of polling and counting stations) and 100% of wholly attributable costs. This is to be contrasted to the situation in which there is a stand-alone Local Council election, in which case that Local Council is required to pay 100% of the costs.

5. RISK MANAGEMENT AND GOVERNANCE ISSUES

5.1 This report relates to the decision to convene a CGR and the agreement by the Committee of the Terms of Reference for it. The Committee must then

give instructions and make the necessary appointments to enable a draft CGR report to be completed by nominated Council Officers, with appropriate reporting and oversight arrangements. The committee may also make legal support available by arrangement with the City Solicitor. After the draft report has been prepared it will be brought to the Committee on November 28th 2019 for its formal consideration. In the event that the draft report is accepted and approved, then, after formal recommendations are made by the Committee, the final text of CGR with its recommendations will be considered at Full Council on 14th January 2019.

6. LEGAL APPRAISAL

6.1 The functions of the Governance and Audit Committee in relation to community governance reviews are to:

i) Determine the validity of community governance petitions under section 80 of the Local Government and Public Involvement in Health Act 2007 (The Act).

ii) Consider the Council's duties in responding to a community governance petition and determine what that response should be in accordance with Sections 83, 84 and 85 of the Act.

iii) Determine the terms of reference of a community governance review under Section 81 of the Act.

iv) Carry out a community governance review under Section 82 and in accordance with Section 93 of the Act and make recommendations in accordance with Sections 87 to 92 of the Act for the approval of full Council.

6.2 The power to take decisions about the creation of Local Councils and their electoral arrangements is delegated to principal councils under part 4 of the Local Government and Public Involvement in Health Act 2007. The Council is also required to have regard to statutory guidance issued by the Secretary of State (see under Background Documents).

6.3 Following the undertaking of the community governance review, the Committee must make recommendations as to whether a new Local Council should be constituted. In deciding which recommendations to make, it must have regard to the need to secure that community governance reflects the identities and interests of the community in that area, and is effective and convenient. The Act also provides that it must also take into account any other arrangements that have already been made (apart from those relating to parishes and their institutions) or that could be made, for the purpose of community representation or community engagement.

6.4 Statutory guidance provides that the recommendations must take account of any representations received and should be supported by evidence which demonstrates that the recommended community governance arrangements

would meet the criteria set out in the 2007 Act.

7. OTHER IMPLICATIONS

7.1 EQUALITY & DIVERSITY

7.1.1 The Committee is required to conduct the CGR is such a way as to ensure that community cohesion is not impacted as a consequence of the Review and any decision from it. It is a matter for its own discretion how it achieves this requirement. In order to comply with the Council's Public Sector Equality Duty, any disproportionate impacts on protected characteristic groups should be considered. An Equality Impact Statement should be stipulated as a mandatory component in the CGR report.

7.2 SUSTAINABILITY IMPLICATIONS

7.2.1 There are no sustainability implications.

7.3 GREENHOUSE GAS EMISSIONS IMPACTS

7.3.1 There are no gas emission impacts.

7.4 COMMUNITY SAFETY IMPLICATIONS

7.4.1 There are no community safety implications so far as is known at this time.

7.5 HUMAN RIGHTS ACT

7.5.1 There are no human rights implications from the terms of reference.

7.6 TRADE UNION

7.6.1 None.

7.7 WARD IMPLICATIONS

7.7.1 The Community Governance Review relates to polling districts 22B, 22C, 22D and 22E within the Shipley ward. The consequences of the creation of a new parish council and the related local governance arrangements will be included in the CGR report.

7.8 IMPLICATIONS FOR CORPORATE PARENTING

7.8.1 None.

7.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESSMENT

7.9.1 The conduct of consultations will involve eliciting personal opinions. However there is no requirement for identifying data to accompany any part of the report that contains such material; and so no foreseeable impact upon

privacy.

8. NOT FOR PUBLICATION DOCUMENTS

8.1 None.

9. OPTIONS

Option 1

9.1 The Committee may choose to approve the Terms of reference outlined in Appendix 1.

Option 2

9.2 The Committee may choose to approve the Terms of Reference outlined in Appendix 1 with amendments.

9.3 In each case the Committee must also give directions and make such appointments as are required to commence the CGR procedure

10. RECOMMENDATIONS

10.1 That the Terms of Reference highlighted in Appendix 1 for a Community Governance Review for a proposed new Local Council in Shipley be approved subject to any amendments required by the Committee.

10.2 That the Committee authorise officers to conduct the Community Governance Review in accordance with the Local Government and Public Involvement in Health Act 2007 and the statutory guidance which relates to it.

11. APPENDICES

11.1 Appendix 1: Terms of Reference: Shipley Community Governance Review.

12. BACKGROUND DOCUMENTS

12.1 Petition submitted by residents from Shipley in May 2019 (available for viewing at Shipley Library).

12.2 Community Governance Review Guidance – Department for Communities and Local Government, and the Local Government Boundary Commission https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8312/1527635.pdf

12.3 Bradford Council and Local Councils Charter (updated 2015) https://www.bradford.gov.uk/media/4129/bradford-council-and-local-councils-charter-2015.pdf

12.4 Local Government and Public Involvement in Health Act 2007
http://www.legislation.gov.uk/ukpga/2007/28/contents

APPENDIX 1

Draft Terms of Reference: Shipley Community Governance Review

Summary:

City of Bradford Metropolitan District Council (the Council) through its Governance and Audit Committee will undertake a Community Governance Review of the Shipley ward and polling districts 22B, 22C, 22D and 22E in order to consider the community governance arrangements within it. These terms of reference set out the terms of that review.

Legal basis for the Review:

The Council is obliged to undertake the review because it has received a request to that effect within a petition submitted to it under Section 80 of the Local Government and Public Involvement in Health Act 2007 (LGPIHA07). The Governance and Audit Committee has determined that the petition is valid.

Subject of the Review:

The Review is to consider whether to recommend the creation of a new parish and, if so, whether it should be named Shipley Town Council.

Conduct of Review:

The Governance and Audit Committee of the Council will undertake the Review in accordance with Article 9 of the Council's Constitution and in compliance with its duties set out in Section 93 of LGPIHA07. It will:

i. Consider the relevant facts objectively, acting impartially transparently and independently

ii. Seek to ensure that the community governance arrangements within the area of the Review (as per the attached map) reflect the identities and interests of the community within it and are effective and convenient.

iii. Take into account any other community governance arrangements (apart from those relating to parishes) that have already been made, or that could be made for the purposes of community representation or community engagement in respect of the same area.

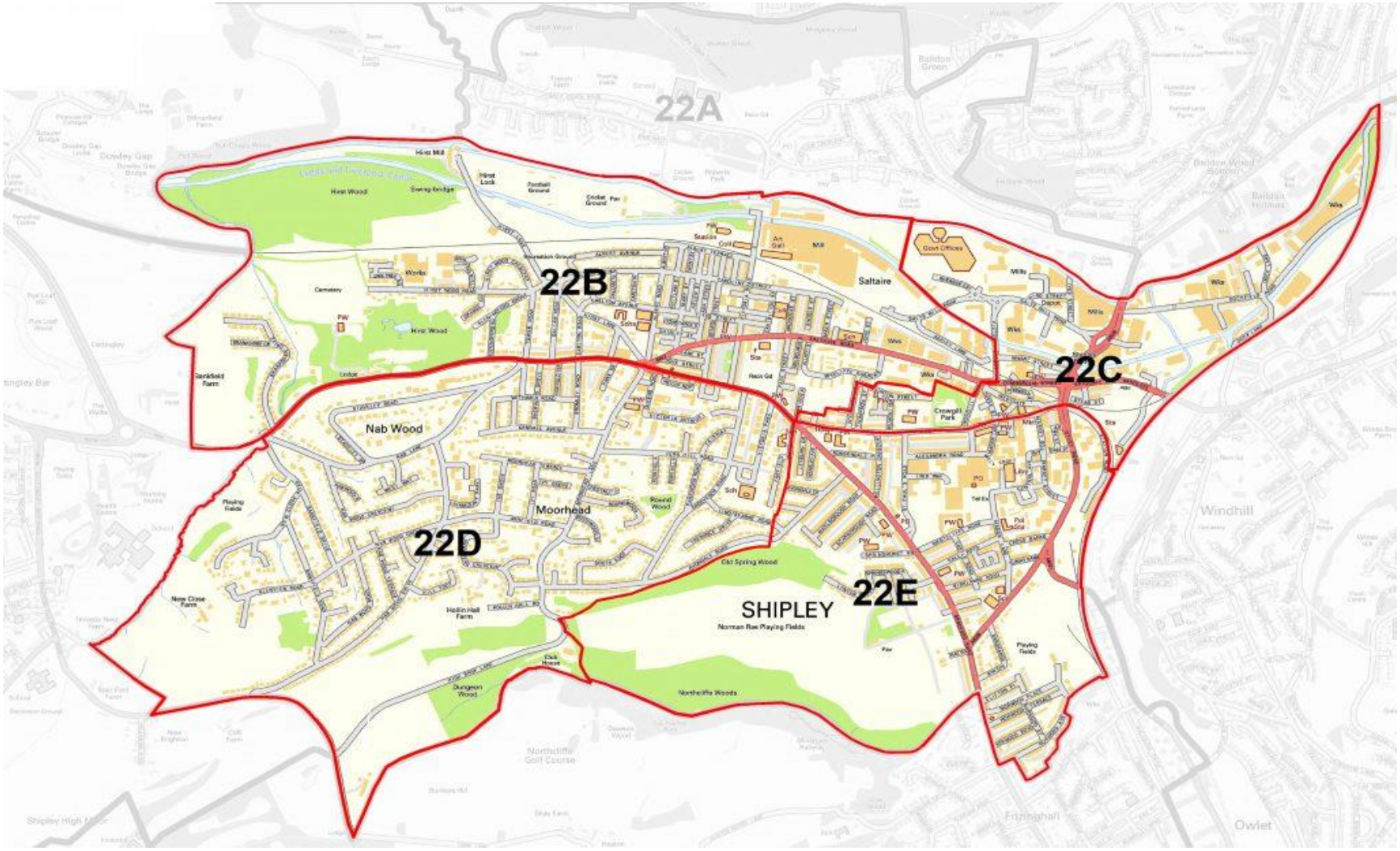
iv Consult with Local government electors for the area under review and with any other person or body who appears to have an interest in the review and take their representations into account.

iv. Record its conclusions within a final written report, together with its recommendations, the reasons for them and any consequential matters arising from its conclusions.

Provisional timetable for the Review

Date	Action
19 September 2019	Terms of reference presented to Governance and Audit Committee
20 September to 1 November 2019	Subject to approval by the GAC, consultation period, with representations invited
1 November 2019	Closing date for representations
28 November	Governance and Audit Committee to receive report with recommendations from the Governance Review
14 January 2020	Subject to approval by the GAC, Council to receive report with recommendations
Elections	To be determined

Map of the area covered by the Review



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