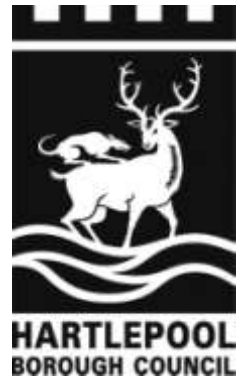


AUDIT AND GOVERNANCE COMMITTEE AGENDA



Thursday 8 December 2016

at 10.00 am

**in Committee Room B
Civic Centre, Hartlepool**

MEMBERS: AUDIT AND GOVERNANCE COMMITTEE

Councillors S Akers-Belcher, Belcher, Cook, Hamilton, Harrison, Martin-Wells and Tennant.

Standards Co-opted Members; Mr Norman Rollo and Ms Clare Wilson.

1. APOLOGIES FOR ABSENCE

2. TO RECEIVE ANY DECLARATIONS OF INTEREST BY MEMBERS

3. MINUTES

3.1 To confirm the minutes of the meeting held on 17 November 2016 *(to follow)*.

4. AUDIT ITEMS

- 4.1 Mazars Report – Annual Audit Letter – *Chief Finance Officer*
- 4.2 Mazars Report – Audit Progress Report – *Chief Finance Officer*
- 4.3 Treasury Management Strategy – *Chief Finance Officer*
- 4.4 Internal Audit Plan 2016/17 Update – *Head of Audit and Governance*
- 4.5 Draft Anti-Fraud and Corruption Strategy – *Chief Finance Officer*
- 4.6 Draft Code of Corporate Governance – *Chief Finance Officer*

6. STATUTORY SCRUTINY ITEMS

No items.

7. MINUTES FROM THE RECENT MEETING OF THE HEALTH AND WELLBEING BOARD

No items.



8. **MINUTES FROM THE RECENT MEETING OF THE FINANCE AND POLICY COMMITTEE RELATING TO PUBLIC HEALTH**

No items.

9. **MINUTES FROM RECENT MEETING OF TEES VALLEY HEALTH SCRUTINY JOINT COMMITTEE**

No items.

10. **MINUTES FROM RECENT MEETING OF SAFER HARTLEPOOL PARTNERSHIP**

No items.

11. **REGIONAL HEALTH SCRUTINY UPDATE**

11.1 Minutes of the meetings of the North East Joint Health Scrutiny Committee held on 2 June 2016.

12. **ANY OTHER BUSINESS WHICH THE CHAIR CONSIDERS URGENT**

13. **LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006**

EXEMPT ITEMS

Under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information as defined in the paragraphs referred to below of Part 1 of Schedule 12A of the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006.

14. **STANDARDS ITEMS**

14.1 Consideration of Investigation Report – SC03/2016 – *Chief Solicitor and Monitoring Officer (para 1)*

14.2 Consideration of Investigation Report – SC05/SC06/SC07-2016 – *Chief Solicitor and Monitoring Officer (para 1)*

ITEMS FOR INFORMATION

Date of next meeting – Thursday 19 January 2017 at 10.00am in the Civic Centre, Hartlepool



AUDIT AND GOVERNANCE COMMITTEE

MINUTES AND DECISION RECORD

17 November 2016

The meeting commenced at 10.00 am in the Civic Centre, Hartlepool.

Present:

Councillor: Ray Martin-Wells (In the Chair).

Councillors: Stephen Akers-Belcher, Sandra Belcher, Rob Cook, Leslie Hamilton, Brenda Harrison and John Tennant.

Also Present: Norman Rollo, Independent Person.

J Grey, Healthwatch
J Clayton, B Goddard and G Goddard, NEED.

Officers: Carole Johnson, Head of Health Improvement
Joan Stevens, Scrutiny Manager
David Cosgrove, Principal Democratic Services Officer

77. Apologies for Absence

Apologies for absence were received from Clare Wilson, Independent Person.

78. Declarations of Interest

None.

79. Minutes of the meeting held on 20 October and 27 October 2016

Confirmed subject to the addition of Mr Rollo to the attendance at the meeting on 20 November.

80. Director of Public Health Annual Report *(Director of Public Health)*

The Head of Health Improvement presented the Director of Public Health's Annual Report to the Committee for Members information; the report had been submitted to Council on 8 September. The theme of this year's report had been 'understanding need' and the report indicated how need could be

measured using quantitative methods and then how this data could be used to understand and address complex public health challenges.

Hartlepool was able to demonstrate really positive examples of innovation and commitment to addressing significant public health challenges. The case studies section of the report provided a snapshot of evidence of new approaches being taken to address some of the needs identified through the joint strategic needs assessment process.

Recommended

That the Annual Report of the Director of Public Health be welcomed and noted.

81. Evidence in relation to the Investigation into Mortality Rates *(Scrutiny Manager)*

The Scrutiny Manager submitted a report making proposals for the conduct of the investigation, setting out the background, proposed terms of reference, potential areas of enquiry and sources of evidence for Members to consider. The timetable for the investigation included evidence gathering from a various parties with a draft final report to be considered by the Committee on 27 March 2017.

Included with the report were the most recent HSMR (Hospital Standardised Mortality Ratio) and SHMI (Summary Hospital-level Mortality Indicator) statistics. The HSMR was an indicator of healthcare quality that measured whether the death rate in a hospital was higher or lower than you would expect. The SHMI was the ratio between the actual number of patients who die following hospitalisation at the Trust and the number that would be expected to die on the basis of average England figures, given the characteristics of the patients treated there. Both sets of statistics would provide background for Members during the investigation.

The Chair commented that since the report had been published, there was new data on the number of stroke victims regionally. Unfortunately, the statistics revealed that locally patients were waiting too long for treatment with 36% having to wait more than 12 hours for a brain scan following a stroke. The Chair indicated that he would wish to see the Trust's explanation for these figures during this investigation.

Recommended

That the report be noted and the terms of reference and investigation timetable be approved.

82. **Electronic Cigarettes (E-Cigarettes)** *(Director of Public Health)*

The Head of Health Improvement outlined the latest position on the use of electronic cigarettes as nicotine delivery devices (also known as vaping) as a means of quitting smoking tobacco. Smoking rates in England are in long-term decline; however, tobacco use remained one of the country's major public health challenges with the harm increasingly concentrated in more disadvantaged communities, being a major contributor to health inequalities. Hartlepool smoking prevalence currently stands at 22.8% (North East 18.7%, England 16.9%). Prevalence in routine and manual workers in Hartlepool is 28.1% (North East 26.5% and England 26.5%).

The harm from smoking was primarily caused through the toxins produced by the burning of tobacco. By contrast, non-tobacco, non-smoked nicotine products, are deemed less harmful. Therefore, electronic cigarettes represent a safer alternative to cigarettes for smokers who are unable or unwilling to stop using nicotine.

There had been a steady increase in the use of e-cigarettes in England over recent years and now e-cigarettes had become the most popular stop smoking aid in England. There was growing evidence that they could be effective in helping smokers to quit, particularly when combined with behavioural support from local stop smoking services.

The Head of Health Improvement reported that currently, there are no medicinally licensed e-cigarettes available on the market and they could not be prescribed for smoking cessation. Stop smoking services were encouraged, however, to be open to smokers who wanted to buy their own e-cigarettes to use in their quit attempt and to provide the expert support that gives them the best chance of stopping smoking successfully.

There is an evidence base for using e-cigarettes supported by research commissioned by Public Health England, Royal College of Physicians and endorsed by Fresh North East. When used as intended, e-cigarettes posed no risk of nicotine poisoning to users, but e-liquids should be in 'childproof' packaging. The accuracy of nicotine content labelling currently raised no major concerns.

The conclusion of professor John Britton's 2014 review for PHE, stated that while vaping may not be 100% safe, most of the chemicals causing smoking-related disease were absent and the chemicals present posed limited danger, remained valid. The current best estimate was that e-cigarettes use was around 95% less harmful to health than smoking.

E-cigarettes released negligible levels of nicotine into ambient air with no identified health risks to bystanders. There had, however, been an overall shift among adults and youth towards the inaccurate perception of e-cigarettes as at least as harmful as cigarettes.

Data released on 31st October 2016 from Action on Smoking and Health (ASH) found no evidence that children were being recruited to smoking through their use of e-cigarettes. The ASH survey found that more young people were now aware of, and had tried e-cigarettes but regular use was still rare and confined largely to those who currently smoked or had previously smoked. During the timescale of the research there had been decline in smoking among children, countering the suggestion that e-cigarette use led to a take up of smoking.

From October 2016, new regulations prohibiting the sale of e-cigarettes to Under 18s and purchase by adults on behalf of under 18s would provide additional protection for young people.

HBC Trading Standards reported that Council premises' records did not have a code to indicate the sale of e-cigarettes, so Officers could only make a best guess estimate on the number of retailers in the town who were selling e-cigarettes. There were 104 known retail premises that sell tobacco products, most of which were likely to also sell e-cigarettes. A reasonable estimate would be that there were around 100 retail premises in Hartlepool that sell e-cigarettes and associated products.

The Head of Health Improvement reinforced the advice that the best thing smokers could do for their health was to quit smoking completely and to quit for good. Smokers should have a range of evidence-based, effective tools to help them to quit. Smokers who wanted to use e-cigarettes in their quit attempt should be encouraged to seek the support of the local stop smoking service. The North East had a vision for 5% smoking prevalence by 2025. Based on all of the evidence to date it was believed that e-cigarettes had the potential to make a significant contribution to achieving this vision.

Members were concerned at the conflicting advice and reports round e-cigarettes; some said they were not dangerous, other said they contained carcinogens. As they were not deemed 'medicinal' and therefore could not be obtained through prescription to aid in smoking cessation were they not as good as they seemed. The Head of Health Improvement commented that many manufacturers did not want to go through the rigorous process required to have the products approved for 'medicinal' use. It was also the case that many users did not want the 'medicinal' intervention in their stop smoking process. There were concerns but on balance the degree of danger was much reduced and officers and medical practitioners had to go on the evidence that was available now. The evidence was that they were up to 95% safer and a much safer option than smoking cigarettes. Some smoking cessation advisors did, have concerns about this line of advice, however in light of all the current evidence they will continue to promote the use of e-cigarettes whilst making clients aware that they cannot be classed as 100% safe, but remain a much safer option than smoking tobacco.

The Chair commented that in any advice issued by the Council, it would be wise to err on the side of caution. Members supported this view but were concerned that advertising on e-cigarette products which appeared not to

fall under the ban on cigarette advertising. A member of the public commented that much depended on people's perception and with many venues banning the use of e-cigarettes alongside cigarettes this gave the impression that there was a risk. The concern with young people taking up vaping was that there was an increase in new 'flavoured' non-nicotine liquids. The Chair noted the comments and added that many airlines had banned e-cigarettes due to the risk of them catching fire or exploding.

The question on the use of e-cigarettes in public spaces was questioned and the Head of Health Improvement indicated that Public Health England had produced some advice earlier in the year which didn't help particularly in developing any policy. The Council's current policy treats e-cigarettes and cigarettes the same, though this is due to be reviewed next year. If their use was recognised as a licensed medical aid, it could be then more difficult to control their use

Recommended

That the report and comments be noted.

83. Delayed Transfer of Care – Verbal Update (*Director of Child and Adult Services*)

The Chair deferred the report to a future meeting.

Recommended

That the report be deferred.

84. Minutes from the Finance and Policy Committee meeting held on 26 September 2016

Noted.

85. Minutes of the meeting of the Tees Valley Health Scrutiny Joint Committee held on 28 July 2016

Noted.

86. Minutes of the meeting of the North East Joint Health Scrutiny Committee held on 27 October 2016

Noted.

87. Any Other Items which the Chairman Considers are Urgent

The Chairman ruled that the following items of business should be considered by the Committee as a matter of urgency in accordance with the provisions of Section 100(B) (4)(b) of the Local Government Act 1972 in order that the matter could be dealt with without delay.

Update on APMS Contracts

The Scrutiny Manager reported that a letter updating the Council on the progress of the review of the APMS Contracts had been received from the Clinical Commissioning Group and this would be circulated to Members today. The letter was, however, confidential at this time.

Assisted Reproduction Unit

The Chair reported that the tender deadline for the provision of Assisted Reproduction Services under the new contract had come to an end. The Chair was aware that some concerns had been raised in relation to the availability of additional information to assist potential providers in the submission of tenders for the new service. The Chair indicated that he had written to the FT and the CCG in advance of the closure of the tender process highlighting the issues that had been brought to his attention. A response was being awaited and would be reported to members at the next or future meetings.

The meeting concluded at 10.35 am.

CHAIR

AUDIT AND GOVERNANCE COMMITTEE

8 December 2016



Report of: Chief Finance Officer

Subject: MAZARS REPORT- ANNUAL AUDIT LETTER

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit and Governance Committee that arrangements have been made for representatives from Mazars to be in attendance at this meeting, to present the content of the report Annual Audit Letter.

2. BACKGROUND

- 2.1 This report updates the Audit and Governance Committee on the key messages from the 2015/16 audit of Hartlepool Borough Council by Mazars. The audit was made up of two elements:
- Mazars audit of the financial statements; and
 - Mazars assessment of arrangements for achieving value for money in the use of resources.
- 2.2 The Annual Audit Letter was circulated to all members of the Council on 01.12.16 for information.

3. FINDINGS OF MAZARS

- 3.1 Details of key messages are included in the main body of the report attached as Appendix 1. It is a positive report which includes an unqualified opinion on the Council's financial statements and an unqualified Value for Money conclusion.

4. RISK IMPLICATIONS

- 4.1 Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of

governance arrangements at the Council, leading to the Committee being unable to fulfil its remit.

5. FINANCIAL CONSIDERATIONS

5.1 There are no financial considerations.

6. LEGAL CONSIDERATIONS

6.1 There are no legal considerations.

7. CHILD AND FAMILY POVERTY CONSIDERATIONS

7.1 There are no child and family poverty considerations.

8. EQUALITY AND DIVERSITY CONSIDERATIONS

8.1 There are no equality and diversity considerations.

9. STAFF CONSIDERATIONS

9.1 There are no staff considerations.

10. ASSET MANAGEMENT CONSIDERATIONS

10.1 There are no asset management considerations.

11. RECOMMENDATIONS

11.1 That the Audit and Governance Committee:

i. Note the report of Mazars.

12. REASON FOR RECOMMENDATIONS

12.1 To ensure the Audit and Governance Committee is kept up to date with the work of our External Auditor.

13. BACKGROUND PAPERS

13.1 Mazars Annual Audit Letter.

14. CONTACT OFFICER

14.1 Chris Little
Chief Finance Officer
Civic Centre
Victoria Road
Hartlepool
TS24 8AY

Tel: 01429 523003
Email: chris.little@hartlepool.gov.uk

Annual Audit Letter 2015/16

Hartlepool Borough Council

October 2016



Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

Members
Hartlepool Borough Council
Civic Centre
Victoria Road
Hartlepool
TS24 8AY

October 2016

Dear Members

Annual Audit Letter 2016

I am delighted to present to you Hartlepool Borough Council's (the Council's) Annual Audit Letter. The purpose of this document is to summarise the outcome of the audit of the Council's 2015/16 annual accounts and our work on our value for money conclusion.

We carried out the audit in accordance with the Code of Audit Practice for Local Government bodies issued by the National Audit Office and delivered all expected outputs in line with the timetable established by the Accounts and Audit Regulations 2015.

2015/2016 has been another challenging year for the Council and, like most other authorities across the country, the Council made some tough decisions on its spending priorities and plans. We reflect on these matters in the value for money and future challenges sections of this letter.

Given the difficult circumstances we were pleased to issue an unqualified opinion on the statement of accounts and the value for money conclusion.

I would like to express my thanks for the assistance of the Council's finance team, as well as senior officers and the Audit and Governance Committee. The continued constructive approach to our audit is appreciated.

If you would like to discuss any matters in more detail then please do not hesitate to contact me or my senior manager Cath Andrew on 0191 383 6300.

Yours faithfully

Mark Kirkham
Partner
Mazars LLP

Contents

01 Key messages	2
02 Financial statements.....	3
03 VFM conclusion.....	5
04 Future challenges	7
05 Fees.....	9

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies 2015-16' issued by Public Sector Audit Appointments Ltd. Reports and letters prepared by appointed auditors and addressed to Members or officers are prepared for the sole use of the Council and we take no responsibility to any Member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales

01 Key messages

Our Annual Audit Letter provides a summary of our work and findings for the 2015/16 audit period for Members and other interested parties.

We reported the detailed findings from our audit work to the Audit and Governance Committee in our Audit Completion Report on 22 September 2016. We also confirmed that your Whole of Government Accounts (WGA) return was consistent with the audited financial statements.

The key conclusions for each element are summarised below:

Our audit of the statement of accounts

We issued an audit report including an unqualified opinion on the Council's financial statements on 23 September 2016.

Our VFM conclusion

We carried out sufficient, relevant work, in line with the National Audit Office's guidance, so that we could conclude on whether you had in place, for 2015/16, proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We issued an unqualified VFM conclusion on 23 September 2016.

Whole of Government Accounts (WGA)

We provide assurance to the National Audit Office (NAO), as the auditor of central government departments, in relation to the consistency of your WGA consolidation pack with the audited statement of accounts. As the Council's activity is below the threshold set by the NAO for a full review of WGA, the procedures we were required to carry out were limited. We reported that your consolidation pack was consistent with the audited statement of accounts.

Our other responsibilities

As the Council's appointed external auditor, we have other powers and responsibilities as set out in the Local Audit and Accountability Act 2014. These include responding to questions on the accounts raised by local electors as well as a number of reporting powers such as reporting in the public interest. We did not receive any questions about the accounts or valid objections in relation to your 2015/16 accounts from local electors, nor did we exercise our wider reporting powers.

02 Financial statements

Audit of the financial statements

We audited your financial statements in line with auditing standards and we reported our detailed findings to the meeting of the Audit and Governance Committee on 22 September 2016. We issued an audit report, including an unqualified opinion, on the statement of accounts on 23 September 2016.

Our work on your financial statements aims to provide reasonable assurance that your accounts are free from material misstatement. The assessment of materiality is, therefore, a key part of our work and we specify an overall materiality threshold, based on your gross revenue expenditure, together with lower materiality values for accounting entries we consider to be more sensitive, such as officer and member remuneration, and members' interests.

We consider materiality when planning and performing our work and in assessing the results.

At the planning stage, we make a judgement about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We updated our materiality calculation when we received the draft accounts and set the overall level at £4.753m.

In applying our view of materiality we identified the following three significant risks:

- management override of controls;
- revenue recognition; and
- LG pension estimates.

We carried out a programme of work to address these risks which included including the testing of journals, transactions and disclosures. Our work did not identify any issues to report.

In completing our work we assess the scale of errors and uncertainties using our materiality calculation to determine the impact on our audit reports. We did not identify any material errors in your statement of accounts.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline. Working papers and other supporting evidence were produced on a timely basis throughout the audit. Your arrangements and the responsiveness of officers enabled us to complete our comprehensive procedures efficiently.

Issues arising from the audit of the accounts

We would like to highlight the following key points:

- officers prepared good quality draft financial statements and working papers;
- there were very few errors identified and no errors impacting on the Council's General Fund balance;
- all errors were corrected other than those which were clearly trivial; and
- the audit progressed well and there were no significant difficulties encountered. We received the full co-operation of officers.

Annual Governance Statement (AGS)

The AGS is drafted by the Council to provide assurance to the reader over how it is managed and how it has dealt with risks in the year. We reviewed the AGS to see whether it complied with relevant guidance and whether it was misleading or was inconsistent with what we know about the Council. We found no areas of concern to report.

03 VFM conclusion

For 2015/16, we are required to satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We performed our work in this area in accordance with guidance set out by the NAO in Auditor Guidance Note 3. This required us to consider one overall criterion as set out below.

Overall criterion: *in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

Our work in this area focused on the three sub-criteria specified by the National Audit Office namely:

Sub-criteria	Focus of the sub-criteria
Informed decision-making	<ul style="list-style-type: none">• Acting in the public interest, through demonstrating and applying the principles and values of sound governance.• Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management.• Reliable and timely financial reporting that supports the delivery of strategic priorities.• Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none">• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.• Managing and utilising assets effectively to support the delivery of strategic priorities.• Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none">• Working with third parties effectively to deliver strategic priorities.• Commissioning services effectively to support the delivery of strategic priorities.• Procuring supplies and services effectively to support the delivery of strategic priorities.

As part of our work, we also:

- reviewed your Annual Governance Statement;
- considered the work of other relevant regulatory bodies or inspectorates to the extent the results of the work have an impact on our responsibilities; and
- carried out risk-based work we determined to be appropriate.

Risk based work

We identified a significant audit risk relating to sustainable resource deployment reflecting the significant financial pressure from reduced funding and increasing demand for some services. We reported the detailed findings of our risk assessment of the Council's arrangements in a separate report to the Audit and Governance Committee on 28 April 2016.

We were able to gain sufficient assurance from our risk based work to mitigate the audit risk although we note that the scale of the financial challenge is so significant that fundamental changes to the level and scope of service provision are envisaged to ensure the Council manages within its available resources.

Overall conclusion

We satisfied ourselves 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 ending 31 March 2016 and we issued an unqualified VFM conclusion.

04 Future challenges

Financial challenges

The main challenge we see for the Council, along with others and the wider public sector, is the continued pressure on finances and the need to plan for further reductions in spending power which will make it increasingly difficult to maintain the existing level service provision. We have noted how the Council has dealt with this challenge so far and expect there to be a need for difficult decisions to ensure spending is kept within available resources.

The Council has made good progress in addressing its biggest challenges to date and has a proven track record of strong budget management and delivering planned budget reductions. The Council reported an uncommitted outturn of £1.548 million at the year end, £91,000 higher than predicted in February 2016. The Council ended the year with usable reserves of £60.859 million, excluding the business rates safety net reserve, most of which is earmarked for known commitments including the budget support fund reserve of £5.781 million. £6.765 million has been committed to support the 2016/17 budget.

The Council faces significant financial pressure from reduced funding and increasing demand for some services. The Council is working to achieve challenging savings plans for 2016/17 and to identify further plans to bridge the funding gap for 2017/18 to 2019/20 of £12.690 million as set out in the Council's Medium Term Financial Strategy reported to Finance and Policy Committee on 20 June 2016. This work is being done through a new framework which consists of three key areas:

- vision for Hartlepool of the Future - this sets out the vision for Hartlepool and where the Council want Hartlepool to be;
- proposed outcome framework - which will form the basis of the 2017/18 Council Plan. The outcomes are shown as falling under three headings; People, Place and Organisation; and
- monitoring arrangements – that define how the Council know if the longer term strategic measures are having the required impact. To be reported annually to show whether the Council is making progress.

Other challenges

The difficulty in maintaining good service performance levels at the same time as reducing budgets is recognised by the Council. Performance assessment arrangements are in place and outcomes are regularly reported to and monitored by Members.

The Council faces a number of other challenges in the coming year which we will consider in planning our audit for 2016/17. These challenges are reflected in the vision in the Council Plan:

- be a place people want to live, study, work, visit and play;
- have a reputation as a place to come to because of the quality of our education, housing, leisure, employment and skills offers;
- be an active part of the Tees Valley offer for skills, employment, housing and leisure; and
- be a place where people feel included and safe; able to live active, healthy and happy lives.

With a financial outlook that is increasingly challenging the Council will need to agree an operating and financial plan that balances the needs and expectations of citizens and service users and the statutory framework with available resources.

Next year's audit

We will focus our 2016/17 audit on the risks that your challenges present to your financial statements and your ability to maintain proper arrangements for securing value for money.

We will also share with you relevant insights that we have as a national and international accounting and advisory firm with experience of working with other public sector and commercial service providers.

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. A key area in this respect includes working with officers as they make preparations for transport infrastructure on a fair value accounting basis as required by the accounting Code. This will require significant changes in the 2016/17 statements and we are already working with officers to ensure the required systems are in place.

05 Fees

As outlined in our Audit Strategy Memoranda for the Council presented to the Governance Committee on 26 April 2016, Public Sector Audit Appointments Ltd (PSAA) sets a scale fee for our audit and certification work. The fees applicable to our work in 2015/16 are summarised below.

Element of work	2014/15 Final Fee	2015/16 As previously reported	2015/16 Final Fee
Hartlepool Borough Council			
Code audit work	£145,250	£108,938	£108,938
Certification work	£18,480	£10,297	£10,297
Non-audit work for certification of grants outside the PSAA regime	£5,000	£2,500	£2,500
Total	£168,730	£121,735	£121,735

The fee outlined above in relation to certification work is an estimate as we are yet to complete our work on certifying the Council's Housing Benefit claim.

Non-audit work during the year relates to our work certifying the Teachers' Pensions return for which fees were agreed separately with officers. In 2014/15 we also completed non-audit fee work relating to Skills Funding Agency grant.

Should you require any further information on this letter or on any other aspects of our work, please contact:

Mark Kirkham

Partner

T: 0113 387 8850

E: mark.kirkham@mazars.co.uk

Mazars LLP
The Rivergreen Centre
Aykley Heads
Durham
DH1 5TS

AUDIT AND GOVERNANCE COMMITTEE

8 December 2016



Report of: Chief Finance Officer

Subject: MAZARS REPORT- AUDIT PROGRESS
REPORT

1. PURPOSE OF REPORT

- 1.1 To inform Members of the Audit and Governance Committee that arrangements have been made for representatives from Mazars to be in attendance at this meeting, to present the content of the report Audit Progress Report.

2. BACKGROUND

- 2.1 This report updates the Audit and Governance Committee on Mazars progress in meeting their responsibilities as the Councils external auditor. It also highlights key emerging issues and national reports which may be of interest to the Audit and Governance Committee.

3. FINDINGS OF MAZARS

- 3.1 Details of key messages are included in the main body of the report attached as Appendix 1.

4. RISK IMPLICATIONS

- 4.1 Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, leading to the Committee being unable to fulfil its remit.

5. FINANCIAL CONSIDERATIONS

- 5.1 There are no financial considerations.

6. LEGAL CONSIDERATIONS

6.1 There are no legal considerations.

7. CHILD AND FAMILY POVERTY CONSIDERATIONS

7.1 There are no child and family poverty considerations.

8. EQUALITY AND DIVERSITY CONSIDERATIONS

8.1 There are no equality and diversity considerations.

9. STAFF CONSIDERATIONS

9.1 There are no staff considerations.

10. ASSET MANAGEMENT CONSIDERATIONS

10.1 There are no asset management considerations.

11. RECOMMENDATIONS

11.1 That the Audit and Governance Committee:

- i. Note the report of Mazars.

12. REASON FOR RECOMMENDATIONS

12.1 To ensure the Audit and Governance Committee is kept up to date with the work of our External Auditor.

13. BACKGROUND PAPERS

13.1 Mazars Update Report.

14. CONTACT OFFICER

14.1 Chris Little
Chief Finance Officer
Civic Centre
Victoria Road
Hartlepool

TS24 8AY

Tel: 01429 523003

Email: Chris.Little@Hartlepool.gov.uk

Hartlepool Borough Council

Audit Progress Report

November 2016



Contents

01 Introduction	2
02 Audit progress.....	2
2015/2016 audit	2
2016/2017 audit	2
2017/2018 audit	2
03 National publications and other updates	3
04 Contact details	6

Our reports are prepared in the context of the Public Sector Audit Appointment Limited's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to the Council, its Members, Directors or officers are prepared for the sole use of the audited body and we take no responsibility to any Member, Director or officer in their individual capacity or to any third party.

01 Introduction

The purpose of this report is to update the Governance Committee on progress in delivering our responsibilities as your external auditors.

We have also highlighted key emerging national issues and developments which may be of interest to Committee Members.

If you require any additional information, please contact us using the details at the end of this update.

Finally, please note our website address (www.mazars.co.uk) which sets out the range of work Mazars carries out, both within the UK and abroad. It also details the existing work Mazars does in the public sector.

02 Audit progress

2015/2016 audit

We completed our audit of the financial statements for the Council on 23th September 2016, further details of the outcomes of our work are included in the Annual Audit letter which is also on the agenda.

In summary, we:

- gave an unqualified opinion on the financial statements;
- issued an unqualified conclusion on the arrangements in place to achieve Value for Money; and
- completed the required return to the NAO in relation to the Council's Whole of Government Accounts pack.

2016/2017 audit

For 2016/17 we are again required to meet the requirements of the National Audit Office's Code of Audit Practice and the Local Audit and Accountability Act 2014. The programme of work we are required to carry out in respect of the new Code remains unchanged. Code audit work includes:

- the audit of your financial statements;
- our work to conclude on your arrangements to secure value for money in your use of resources; and
- a programme of work specified by the National Audit Office in respect of your Whole of Government Accounts return.

At this stage we have not started our planning work for the 2016/17 financial year. We will issue our Audit Strategy Memorandum to the Council later in the financial year setting out the risks we have identified and the programme of work we plan to carry out in response to those risks.

2017/2018 audit

Public Sector Audit Appointments has recently published its consultation on the work programme and scale of fees for 2017/18. It is not proposing any changes to the audit work or scale fees.

03 National publications and other updates

We provide information on national reports which may be of interest to the Governance Committee below:

1. **Brexit, Mazars, June 2016**
2. **English devolution deals, NAO, April 2016**
3. **Consultation on changes to governance arrangements for local authority lending, HM Treasury, May 2016**
4. **Public Sector Audit Appointments (PSAA) annual regulatory compliance and quality report, June 2016**
5. **NAO report on financial sustainability of local authorities: capital expenditure and resourcing, June 2016**
6. **Working together: how health, social care and fire and rescue services can increase their reach, scale and impact through joint working, NHS England and Public Health England, June 2016**
7. **CIPFA publication – understanding local authority financial statements, September 2016**
8. **NAO report – local public service reform, September 2016**

1. **Brexit, Mazars, June 2016**

The UK has voted to leave the EU, which will have significant implications for all our clients. The exact consequences for future policy and regulation remain unknown. It will take time to fully understand the implications of the vote, and it is important to note that Article 50 of the Lisbon treaty provides for two years, from the date the UK Government gives notice to the Council of Europe, to negotiate and agree exit terms.

We remain committed to partnering with our clients and our people during this period of volatility and uncertainty, supporting them as the implications of the vote become clear and helping them work through any necessary changes.

Based on our discussions with clients to date, there is obviously concern over the implications for local government bodies ranging from the impact on EU Funding (e.g. grants) to the impact on local businesses and the economy. This Council serves an area that has benefitted significantly from EU funding, with relatively high levels of deprivation.

<http://www.mazars.co.uk/Home/News/Brexit-The-implications>

2. **English devolution deals, NAO, April 2016**

Devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended, according to the National Audit Office.

Central government's management approach to brokering devolution deals is designed to support its policy of localism. The government considers that devolution proposals should be led by local areas, and that central government's role should be to respond to these proposals. As a result, the government has decided not to set out a clear statement of what it is trying to achieve through devolution deals.

According to the NAO, however, there are significant accountability implications arising from the deals which central government and local areas will need to develop and clarify. These include the details of how and when powers will be transferred to mayors and how they will be balanced against national parliamentary accountability. The deals agreed so far involve increasingly complex administrative and governance configurations. And as devolution deals are new and experimental, good management and accountability both depend on appropriate and proportionate measures to understand their impact.

To improve the chances of success, and provide local areas and the public with greater clarity over the progression of devolution deals, central government should clarify the core purposes of devolution deals as well as who will be responsible and accountable for devolved services and functions, and should ensure it identifies and takes account of risks to devolution deals that arise from ongoing challenges to the financial sustainability of local public services.

<https://www.nao.org.uk/report/english-devolution-deals/>

It remains to be seen what impact the changes in central government which followed Brexit have on devolution and how plans for greater collaboration between emergency services fit with the devolution deal for the Tees Valley. However, the NAO report provides guidance relevant to all reorganisations of local public services.

3. Consultation on changes to governance arrangements for local authority lending, HM Treasury, May 2016

HM Treasury is consulting on proposed changes to the governance arrangements for local authority lending, which include the abolition of the PWLB and transfer of its lending functions to another body using powers set out in the Public Bodies Act 2011. The text states that the proposals only affect the governance arrangements and do not change any of the policy or operational aspects of lending to local authorities. The consultation ends on 3 August 2016. The Authority currently uses PWLB for most of its borrowing.

<https://www.gov.uk/government/consultations/transfer-of-functions-from-the-public-works-loan-board-new-governance-arrangements>

4. PSAA annual regulatory compliance and quality report, June 2016

PSAA monitors the performance of all its audit firms. The results of the monitoring provide audited bodies and other stakeholders with assurance that high-quality audits are being delivered.

The report summarising the results of the monitoring work for Mazars LLP is available on the PSAA website.

<http://www.psaa.co.uk/wp-content/uploads/2015/07/Mazars-2014-15-Annual-Regulatory-Compliance-and-Quality-Report-Final.pdf>

The firm is meeting standards for overall audit quality and regulatory compliance requirements. The red, amber, green (RAG) indicator for overall audit quality and regulatory compliance was calculated using the principles detailed in Appendices 1 and 2 to the report. For 2014/15, Mazars' combined audit quality and regulatory compliance rating was **green** which is the highest rating.

2016 Comparative performance for audit quality and regulatory compliance

BDO	Deloitte	EY	GT	KPMG	Mazars	PwC
Green	Green	Green	Amber	Amber	Green	Amber

5. NAO report on financial sustainability of local authorities: capital expenditure and resourcing, June 2016

Local authorities have kept up levels of capital spending but face pressure to meet debt costs and maintain investment in existing assets.

According to the NAO, local authorities' debt servicing costs have grown as a proportion of revenue spending as their revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 9.9% or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

The Department for Communities and Local Government takes its assurance from its devolved framework for capital, which provides assurance on financial sustainability at authority level, but does not provide a mechanism for identifying trends and issues across the sector. As a result, the Department has limited insight into broad changes in authorities' capital resourcing and spending as well as associated risks.

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

6. Working Together: how health, social care and fire and rescue services can increase their reach, scale and impact through joint working, NHS England and Public Health England, June 2016

NHS England have launched a new section of its website dedicated to developing '*Fire as a Health asset*'. This is a principle Cleveland Fire Authority are already committed to and recently it has signed a memoranda of understanding with the North East Ambulance Service, expanded its co-responder scheme and brought public health within the scope of home fire safety assessments. On 1 October 2015 NHS England, the Chief Fire Officers Association, the Local Government Association, Public Health England and Age UK published a joint consensus statement setting out a national commitment to improve health and wellbeing. In June 2016 NHSE and Public Health England published a report to support the implementation of the consensus statement. It suggests home fire safety assessments could become a key public health tool and contains case studies showing good practice already in place.

<https://www.england.nhs.uk/resources/resources-for-ccgs/out-frwrk/dom-2/fire-asset/>

7. 2016 CIPFA publication – understanding local authority financial statements, September

CIPFA has updated and published 'Understanding Local Authority Financial Statements' (previously 'How to Tell the Story') on the CIPFA/LASAAC pages of the CIPFA website. This can be found here

<http://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/cipfa-lasaac-local-authority-code-board/simplification-and-streamlining-the-presentation-of-local-authority-financial-statements>

This summarises the changes to the presentation of the Comprehensive Income and Expenditure Statement for the 2016/17 year, setting out how CIPFA feels the changes will enable better understanding of the statements by their users. We will cover the changes required to the financial statements with finance staff in our annual accounting workshops which we provide free of charge to all of our clients.

8. NAO report – local public service reform, September 2016

The NAO has recently published an overview summarising the findings of their work on local public service reform, which officers and audit committee members may wish to be aware of. The NAO undertook research in early 2016 to find out:

- how local public service reform is being pursued in eight places in England;
- what the enablers and barriers are; and
- how the government is supporting reform at a local level.

The document summarises the findings of this work and identifies sources of help that may be useful to local areas and those supporting local public service reform, including examples of cross-sector and agency working. It is available on the NAO website <https://www.nao.org.uk/report/local-public-service-reform/>

04 Contact details

Please let us know if you would like further information on any items in this report.

www.mazars.co.uk

Mark Kirkham

Partner

07747 764529

mark.kirkham@mazars.co.uk

Cath Andrew

Senior Manager

0191 383 6300 or 07815 878116

cath.andrew@mazars.co.uk

Address:

Rivergreen Centre,
Aykley Heads,
Durham,
DH1 5TS
0191 383 3000

AUDIT AND GOVERNANCE COMMITTEE

8 December 2016



Report of: Chief Finance Officer

Subject: TREASURY MANAGEMENT STRATEGY

1. PURPOSE OF REPORT

1.1 The purposes of the report are to:

- i. Provide a review of Treasury Management activity for 2015/16 including the 2015/16 outturn Prudential Indicators;
- ii. Provide a mid-year update of the 2016/17 Treasury Management activity; and
- iii. Enable the Audit and Governance Committee to scrutinise the recommended 2017/18 Treasury Management Strategy before it is referred to the full Council for approval.

2. BACKGROUND

2.1 The Treasury Management Strategy covers:

- the borrowing strategy relating to the Council's core borrowing requirement arising from historic capital expenditure funded from Prudential Borrowing;
- the borrowing strategy for the use of Prudential Borrowing for approved capital investment business cases where loan repayment costs are funded from budget savings and / or increased income, previous examples have included LED streetlight replacement, housing schemes and the development of a new 'Centre for Independent Living'; and
- the annual investment strategy relating to the Council's cash flow.

2.2 The Treasury Management Strategy needs to ensure that the loan repayment costs of historic capital expenditure do not exceed the available General Fund revenue budget, which has been reduced as part of the Medium Term Financial Strategy. Similarly, for specific business cases the Treasury Management Strategy needs to ensure loan repayment costs do not exceed the costs built into the business cases. As detailed later in the report these issues are being managed successfully.

2.3 The Local Government Act 2003 requires the Council to 'have regard to' the CIPFA (Chartered Institute of Public Finance and Accountancy) Prudential

Code and to set prudential indicators for the next three years to ensure capital investment plans are affordable, prudent and sustainable.

- 2.4 The Act requires the Council to set out a Treasury Management Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Secretary of State has issued Guidance on Local Government Investments which came into force on 1st April, 2004, and has subsequently been updated.
- 2.5 The Council is required to nominate a body to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies, before making recommendations to full Council. This responsibility has been allocated to the Audit and Governance Committee.
- 2.6 This report covers the following areas:
- Economic background and outlook for interest rates
 - Treasury management outturn position for 2015/16
 - Treasury Management Strategy 2016/17 mid-year review
 - Treasury Management Strategy 2017/18
 - Minimum Revenue Provision and Interest Cost and Other Regulatory Information 2017/18

3. ECONOMIC ENVIRONMENT AND OUTLOOK FOR INTEREST RATES

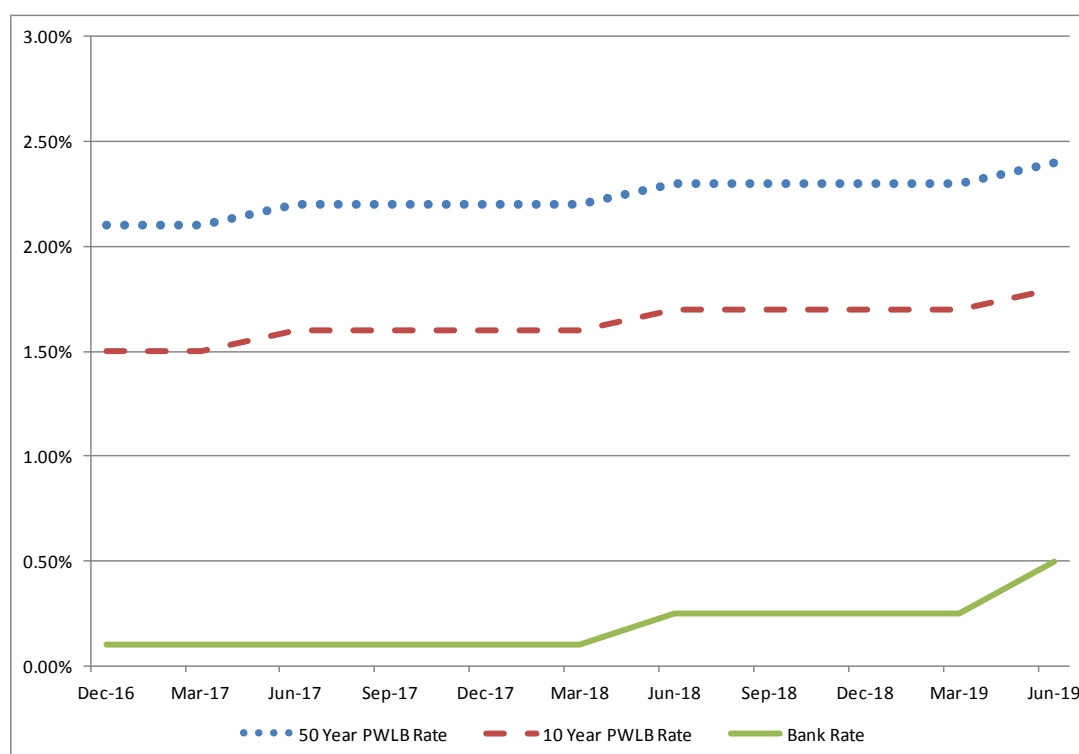
- 3.1 At the time the 2016/17 Treasury Management Strategy was proposed most economists anticipated that interest rates in the USA and the UK would begin to increase during 2016. This position reflected underlying economic conditions and statements from both the Federal Reserve and the Bank of England.
- 3.2 However following the referendum vote to leave the EU in June this year there was a change in the outlook for UK interest rates and greater uncertainty.
- 3.3 The Bank of England cut the Bank Rate from 0.5% to a new historic low, 0.25% as part of a package of measures to address the expected slowdown in growth. The Governor of the Bank of England had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, owing to uncertainty of whether the UK would continue to have full access to the EU single market (i.e. without tariffs). The Governor indicated that monetary policy alone would not be sufficient to address emerging issues in the economy suggesting that the Government would need to help growth by increasing investment expenditure and possibly use fiscal tools such as taxation. The new Chancellor Phillip Hammond announced after the referendum result that the target of achieving a budget surplus in 2020 will be eased in the November 2016 Autumn Statement.

- 3.4 Inflation is forecast to rise in 2018 and 2019 to around 2.4%. The Consumer Prices Index (CPI) started rising during 2016 as the fall in the price of oil and food twelve months earlier dropped out of the calculation during the year. In addition, the fall in the value of sterling following the referendum is likely to result in a further increase in CPI over a time period of three to four years. Since the referendum in June the pound has fallen about 18% against the dollar. This reflects the market view that growth is likely to be stronger in the US than the UK and that UK interest rates are falling while US interest rates are expected to increase.
- 3.5 **U.S.A. economy** – Following overall growth of 2.4% in 2015 the US economy disappointed in the first quarter of 2016 with annualised growth at 0.8% but improving to 1.4% in the second quarter. However, forward indicators are pointing to a pickup in growth for the remainder of 2016. After holding interest rates at near 0% for seven years the Federal Reserve increased rates by 0.25% in December 2015. At that point it was anticipated that there would be four more rate rises to come in 2016. However, more downbeat international economic news has delayed the timing of the second increase which is now not expected until December 2016 at the earliest.
- 3.6 **Eurozone economy** – In an effort to stimulate the Eurozone economy the European Central Bank (ECB) initiated a €1.1 trillion quantitative easing (QE) programme in January 2015, buying up high quality government debt of selected Eurozone countries at a rate of €60 billion per month. This programme was expected to run until September 2016 but was extended by the ECB to March 2017. The ECB progressively cut its deposit facility interest rate with it reaching -0.4% in March 2016. At the same meeting the ECB also increased its monthly asset purchase rate to €80 billion per month. These measures have struggled to make an impact in boosting economic growth. GDP growth rose by 0.6% in the first quarter of 2016 but slowed to an increase of 0.3% in the second quarter. This has led to many commentators stating that central banks around the world are running out of tools to stimulate economic growth. This position highlights the need for national governments to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in their economies and stimulate economic growth.
- 3.7 **Other economies** – Japan continues to struggle with very weak economic growth and is making little progress on fundamental reform of its economy. Chinese economic growth has been weakening and medium term risks have been increasing with many commentators worried about the adverse affect this may have on the already weak global economic recovery.
- 3.8 **Interest Rate Forecasts**
- 3.9 Forecasting future interest rates remains extremely challenging. Prior to the EU referendum Bank Rate had remained unchanged for significantly longer than most economists initially forecast but an increase in interest rates was widely anticipated. However, following the EU referendum the Bank Rate was reduced to a new historic low of 0.25%. Capita Asset Services (the Authority's Treasury Management advisors) continue to update their forecasts to reflect statements made by the Governor of the Bank of England

and changes in the economy. Their latest forecast incorporates forward guidance which indicates that there may be a further rate cut to 0.1% in November 2016. An increase back to 0.25% is not anticipated until May 2018.

- 3.10 The Governor of the Bank of England has repeatedly stated that increases in Bank Rate will be slow and gradual once they do start. The Monetary Policy Committee is concerned about the impact of increases on heavily indebted consumers, especially when growth in average disposable income is still weak and could turn negative if inflation rises as forecast. Capita Asset Services' latest forecasts up to June 2019 are provided in the following graph.

Interest Rate Forecast up to June 2019



- 3.11 Since the late 1990s Bank Rate averaged 5% until 2009 when the Bank of England reduced it to the historically low 0.5% in response to the financial crisis. Over the same period PWLB rates have been significantly higher than they are at present. The rates for 10 year loans were on average 5% prior to the financial crisis but subsequently fell to between 3% and 4%. The rates for 50 year loans were also on average 5% although this trend continued throughout the financial crisis. PWLB interest rates fell to historically low levels in early 2015 predominantly as a consequence of falling oil prices. They fell further following the EU referendum to the current levels. In the context of previous interest rates, current rates are at an unprecedented low level.

4. TREASURY MANAGEMENT OUTTURN POSITION 2015/16

4.1 Capital Expenditure and Financing 2015/16

4.2 The Council's approved capital programme is funded from a combination of capital receipts, capital grants, revenue contributions and prudential borrowing.

4.3 Part of the Council's treasury management activities is to address the prudential borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activity also includes managing the Council's day to day cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance.

4.4 Actual capital expenditure forms one of the required prudential indicators. As shown at Appendix A, the total amount of capital expenditure for the year was £21.488m, of which £7.277m was funded by Prudential Borrowing.

4.5 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is the accumulated value of capital expenditure which has been financed from Prudential Borrowing. Each year the Council is required to apply revenue resources to reduce this outstanding balance.

4.6 Whilst the Council's CFR sets a limit on underlying need to borrow, the Council can manage the actual borrowing position by either;

- borrowing externally to the level of the CFR; or
- choosing to use temporary internal cash flow funds instead of borrowing; or
- a combination of the two.

4.7 The Council's CFR for the year was £97.600m as shown at Appendix A comprising £74.803m relating to the core CFR and £22.797m relating to business cases. This is lower than the approved estimate of £102.804m owing to the rephasing of capital expenditure.

4.8 The Council's total long term external borrowing as at 31st March, 2015 was £83.9m and increased to £87.7m at 31st March 2016. This increase was in line with the approved strategy and reflected borrowing taken out to secure the business cases including following schemes:

- Street Lighting
- Coastal Defences
- Raby Road Bungalow

4.09 The total borrowing remains below the CFR and there continues to be an element of netting down investments and borrowing to a level that is expected to be sustainable.

4.10 Prudential Indicators and Compliance Issues 2015/16

4.11 Details of each Prudential Indicator are shown at Appendix A. Some of the prudential indicators provide either an overview or specific limits on treasury activity. The key Prudential Indicators to report at outturn are described below.

4.12 The **Authorised Limit** is the “Affordable Borrowing Limit” required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. Appendix A demonstrates that during 2015/16 the Council has maintained gross borrowing within its Authorised Limit.

4.13 **Net Borrowing and the CFR** - In order to ensure that borrowing levels are prudent, over the medium term the Council’s external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not exceed the CFR for 2015/16 plus the expected changes to the CFR over 2016/17 and 2017/18. The Council has complied with this Prudential Indicator.

4.14 The treasury position 31st March 2016

4.15 The table below shows the treasury position for the Council as at the 31st March, 2016 compared with the previous year:

Treasury position	31st March 2015		31st March 2016	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt				
- Tees Valley Unlimited Loan	£1.6m	0.00%	£1.6m	0.00%
- PWLB	£37.3m	2.91%	£41.1m	2.97%
- Market Loans (LOBOs)	£45.0m	4.00%	£45.0m	4.00%
Total Long Term Debt	£83.9m	3.44%	£87.7m	3.45%
Total Investments	£68.2m	0.40%	£61.1m	0.54%
Net borrowing Position	£15.7m		£26.6m	

4.16 At the time the LOBOs were taken out the prevailing PWLB rates were between 4.25% and 4.55%. The LOBOs have therefore allowed the Council to achieve annual interest savings between 0.25% and 0.55% compared to if PWLB loans had been taken out.

4.17 A key performance indicator shown in the above table is the very low average rate of external debt of 3.45% for debt held as at 31st March, 2016. This is a historically low rate for long term debt and the resulting interest savings have already been built into the Medium Term Financial Strategy.

- 4.18 The Council's investment policy is governed by Department of Communities and Local Government (DCLG) guidance, which has been implemented in the annual investment strategy approved by Council on 5th February, 2015.
- 4.19 The Council does not rely solely on credit ratings and takes a more pragmatic and broad based view of the factors that impact on counterparty risk. As part of the approach to maximising investment security the Council has also kept investment periods short (i.e. in most cases between three and six months but a maximum of one year). The downside of this prudent approach is that the Council achieved slightly lower investment returns than would have been possible if investments were placed with organisations with a lesser financial standing and for longer investment periods. However, during 2015/16 the risk associated with these higher returns would not have been prudent.
- 4.20 A prudent approach will continue to be adopted in order to safeguard the Council's resources, although some changes are recommended later in the report.
- 4.21 **Regulatory Framework, Risk and Performance 2015/16**
- 4.22 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:
- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
 - The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made since this power was introduced);
 - Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act, and requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
 - The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
 - Under the Act the DCLG has issued Investment Guidance to structure and regulate the Council's investment activities;
 - Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November, 2007.
- 4.23 The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its Treasury Management activities

5. TREASURY MANAGEMENT STRATEGY 2016/17 MID YEAR REVIEW

- 5.1 The Treasury Management Strategy for 2016/17 was approved by Council on 18th February 2016. The Council's borrowing and investment position as at 30th September 2016 is summarised as follows:

	£m	Average Rate
Market Loans (LOBOs)	20.0	4.12%
Market Loans (Maturities)	25.0	3.92%
PWLB Loans	39.8	3.00%
Tees Valley Unlimited Loan	1.6	0.00%
Gross Debt	86.4	3.47%
Investments	63.8	0.53%
Net Debt as at 30-09-16	22.6	

- 5.2 No new borrowing has been undertaken during 2016/17. However in June 2016 Barclays took the decision to remove their option to 'call' the LOBOs and these have now become standard maturity loans. This has been beneficial to the Council as this has removed refinancing risk on these loans at no cost to the Council.
- 5.3 Net Debt has decreased since 31st March 2016 owing to positive cash flows. It is anticipated that the net debt will increase towards the end of the year in line with previous years as a result of reducing cash flows however depending on the timing of the receipt of Safety Net Grant which is not yet known this position may decrease.
- 5.4 As part of the Treasury Strategy for 2016/17 the Council set a number of prudential indicators. Compliance against these indicators is monitored on a regular basis and there are no breaches to report.

6. TREASURY MANAGEMENT STRATEGY 2017/18

- 6.1 Owing to the timing of the Audit and Governance Committee meeting it is not possible to provide detailed prudential indicators as part of the Treasury Management Strategy for 2017/18 prior to this being reported to Council as part of the Annual Budget and Policy Framework process. This is because detailed Capital Allocations have not yet been released by the Government and the Net Revenue Budget has not yet been set. However this does not prevent the Committee from scrutinising the proposed Treasury Management Strategy which is presented below.
- 6.2 The key elements of the Treasury Management Strategy which Members need to consider are the Borrowing and Investment Strategies, detailed in section 7 and 8.

7. BORROWING STRATEGY 2017/18

- 7.1 Borrowing strategies are needed for the Core Borrowing Requirement and the borrowing requirement related to specific business cases, as outlined in the following paragraphs.

7.2 Core Borrowing Requirement

- 7.3 The continuing objective of the Council's Treasury Management Strategy is to fund the core annual borrowing requirement at the lowest possible long term interest rate.
- 7.4 Since the unprecedented reduction in Base Rate to 0.5% in March 2009 the Treasury Management Strategy has been to net down investments and borrowings resulting in annual savings reflected in the outturn strategy. The existing Treasury Management Strategy has always recognised that this approach was not sustainable in the longer term as the one-off resources which have been used to temporarily avoid long term borrowing would be used up. The MTFS for 2017/18 to 2019/20 recommends proposals for using significant one-off resources and therefore a large proportion of reserves will be used up over the next three years and will not be available to net down the borrowing requirement. Therefore, in advance of this a decision was taken to partially fund the core borrowing requirement when long term PWLB interest rates fell to unprecedentedly low levels in January 2015.
- 7.5 This decision has secured exceptionally low long term interest rates, meeting the objective of funding the borrowing requirement at historically low long term interest rates. This action has also secured the Treasury Management savings already built into the 2015/16 base budget of £1.270m.
- 7.6 Total borrowing remains below the CFR and the strategy continues an element of netting down investments and borrowing. This is at a level that is forecast to be sustainable. However owing to the unprecedented financial environment it may be appropriate to take out further borrowing and the position will be kept under constant review. A decision to borrow up to the CFR may be taken by the Chief Finance Officer if it is in the best interests of the Council to do so.

7.7 Borrowing Requirement Business Cases

- 7.8 The financial viability of each business case is assessed on an individual basis reflecting the specific risk factors for individual business cases. This includes the repayment period for loans and fixed interest rates for the duration of the loan. This assessment is designed to ensure the business case can be delivered without resulting in a General Fund budget pressures and corresponding increase in the overall budget deficit.
- 7.9 In order to ensure that the above objectives are achieved a strategy of fully funding the borrowing for business cases has been adopted in recent years. However, given the reduction in interest rates and current interest rate forecasts it is recommended that a strategy of temporarily internally funding business cases maybe appropriate in order to mitigate counterparty risk. The timing of long term borrowing decisions will then be managed carefully to ensure that interest rates are fixed at an affordable level.

7.10 **Borrowing in Advance of Need**

- 7.11 The Council has some flexibility to borrow funds for use in future years. The Chief Finance Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected. In these circumstances borrowing early at fixed interest rates may be undertaken where this will secure lower fixed interest rates for specific business cases, or to fund future debt maturities (i.e. if the remaining LOBOs were called). Any borrowing in advance of need will be reported to the Council in the next Treasury Management report.

8. **INVESTMENT STRATEGY 2017/18**

- 8.1 The Department for Communities and Local Government (CLG) issued investment guidance in 2010 and this forms the structure of the Council's policy. The key intention of the Guidance is to maintain the current requirement for authorities to invest prudently and that priority is given to security and liquidity before interest return. This Council has adopted the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes and applies its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced Treasury Management Practices covering investment counterparty policy which requires approval each year.
- 8.2 The primary objectives of the Council's investment strategy in order of importance are:
- safeguarding the re-payment of the principal and interest of its investments on time;
 - ensuring adequate liquidity; and
 - investment return.
- 8.3 **Counterparty Selection Criteria**
- 8.4 The Council's criteria for providing a pool of high quality investment counterparties uses the credit rating information produced by the three major ratings agencies (Fitch, Moody's and Standard & Poor's) and is supplied by our treasury consultants. All active counterparties are checked against criteria outlined below to ensure that they comply with the criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered on a daily basis before investments are made. For instance a negative rating watch applying to a counterparty at the minimum criteria will be suspended from use, with all others being reviewed in light of market conditions.
- 8.5 The **lowest common denominator** method of selecting counterparties and applying limits is used. This means that the application of the Council's

minimum criteria will apply to the lowest available rating for any institution. For instance if an institution is rated by two agencies, one meets the Council's criteria, the other does not, the institution will fall outside the lending criteria

- 8.6 The Chief Finance Officer will continue to adopt a vigilant approach resulting in what is effectively a 'named' list. This consists of a select number of counterparties that are considered to be the lowest risk.
- 8.7 Following the deterioration of market conditions as a result of the EU referendum a review of the current counterparty list has been completed. The current counterparty list continues to be limited and the surplus cash flow continues to be invested with high quality institutions however interest rates on some instant access accounts have reduced to near 0% and the following amendments are recommended in order to increase flexibility and secure investment income with existing high quality counterparties:
- Increase the Counterparty Limit for Svenska Handelsbanken from £3m to £5m.
 - Increase the Counterparty Limit for County, Metropolitan or Unitary Councils from £5m to £8m.
 - Increase the Counterparty Limit for District Councils, Police or Fire Authorities from £2m to £3m.
 - Increase the overall Local Authority Limit from £35m to £40m.
- 8.8 The table below shows the proposed limits in 2017/18 for the Council:

Category	Fitch	Moody's	Standard & Poor's	Proposed Counterparty Limit	Proposed Time Limit
A	F1+/AA-	P-1/Aa3	A-1+/AA-	£15m	1 Year
B	F1/A-	P-1/A3	A-1/A-	£10m	1 Year
C	Debt Management Office/Treasury Bills/Gilts			£40m	1 Year
D	Part Nationalised Banks and Banks covered by UK Government Guarantee			£15m	1 Year
E	Other Local Authorities Individual Limits per Authority: - £8m County, Metropolitan or Unitary Councils - £3m District Councils, Police or Fire Authorities			£40m	1 Year
F	Three Money Market Funds (AAA) with maximum investment of £3m per fund			£9m	Liquid (instant access)
G	Svenska Handelsbanken			£5m	3 Months

8.9 Specified and Non-Specified Investments

- 8.10 CLG regulations classify investments as either Specified or Non-Specified. Specified Investment is any investment not meeting the Specified definition.
- 8.11 The investment criteria outlined above is different to that used to define Specified and Non-Specified investments. This is because it is intended to create a pool of high quality counterparties for the Council to use rather than defining what its investments are.
- 8.12 Specified Investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within twelve months if it wishes. These are low risk assets where the possibility of loss of principal or investment income is small. These would include investments with:
- The UK Government (such as the Debt Management Office, UK Treasury Bills or a Gilt with less than one year to maturity).
 - Other Councils
 - Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating (AAA) by a credit rating agency.
 - A body that has been awarded a high credit rating by a credit rating agency (such as a bank or building society). This covers bodies with a minimum rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies.
- 8.13 Non-specified Investments are any other type of investment (i.e. not defined as Specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any investments with:
- Building societies not meeting the basic security requirements under the specified investments. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings.
 - Any bank or building society that has a minimum long term credit rating of A- for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).

9. MINIMUM REVENUE PROVISION AND INTEREST COSTS AND OTHER REGULATORY INFORMATION 2017/18

- 9.1 There are two elements to the Councils annual loan repayment costs – the statutory Minimum Revenue Provision (MRP) and interest costs. The Council is required to pay off an element of the Capital Financing Requirement (CFR) each year through a revenue charge called the Minimum Revenue Provision (MRP).

- 9.2 CLG Regulations require the Council to approve **an MRP Statement** in advance of each year. This will determine the annual loan repayment charge to the revenue account.
- 9.3 A revised MRP Policy was presented to Finance and Policy Committee on 20th June 2016 and then to Audit and Governance Committee on 14th July 2016 and the report is attached at Appendix B.
- 9.4 The revised policy is in relation to capital expenditure incurred before 1st April 2008 and enables the Council to make a £2m recurring annual saving until 2028/29.
- 9.5 This policy fully repays this element of the CFR within 50 years. Under the previous policy 13% (£9.4m) would remain outstanding at the end of this period.
- 9.6 The budget strategy reflects the above saving and is based on the following MRP statement and Council is recommended to formally approve this statement:
- For capital expenditure incurred before 1st April, 2008 the Council's MRP policy is to calculate MRP based on a 50 year annuity repayment.
 - From 1st April, 2008 the Council calculates MRP based on asset life for all assets or where prudential borrowing is financed by a specific annuity loan, MRP will be calculated according to the actual annuity loan repayments.
- 9.7 **CIPFA Treasury Management Code of Practice**
- 9.8 The Council has adopted CIPFA Treasury Management Code of Practice. Confirmation of this is the first prudential indicator.
- 9.9 **Treasury Management Advisors**
- 9.10 The Council uses Capita Asset Services – Treasury Solutions (formerly known as Sector) as its external treasury management advisors.
- 9.11 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
- 9.12 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

10. FINANCIAL CONSIDERATIONS

- 10.1 As detailed in preceding paragraphs and section 5 of Appendix B.

11. RISK IMPLICATIONS

- 11.1 As detailed in Appendix B the phasing reserves manages the risk of sustaining the financial benefits to the General Fund from adopting the revised MRP policy.

12. LEGAL CONSIDERATIONS

- 12.1 The MRP proposal detailed in the report can be implemented in accordance with the requirement of Statutory Instrument 2008 Number 414 - the 'Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008' and provide a prudent basis for determining the annual MRP provision for the pre 31st March 2008 CFR.

13. CHILD AND FAMILY POVERTY

- 13.1 There are no direct child and family poverty implications in this instance. However, the revised recommended MRP policy will help avoid the need for cuts in services, which may have had child and family poverty implications.

14. EQUALITY AND DIVERSITY CONSIDERATIONS

- 14.1 There are no equality and diversity considerations in this instance.

15. SECTION 17 OF THE CRIME AND DISORDER ACT 1998 CONSIDERATIONS

- 15.1 None

16. STAFF CONSIDERATIONS

- 16.1 None

17. ASSET MANAGEMENT CONSIDERATIONS

- 17.1 None

18. CONCLUSION

- 18.1 The report sets out how the Council will comply with the regulatory framework to ensure the Council achieves the lowest borrowing costs and security for any temporary cash investments made by the Council.
- 18.2 As reported to the Committee on 14th July 2016 the report confirms the revised MRP policy which helps the Council meet the objective of ensuring the CFR is fully repaid within 50 years, sooner than the existing policy and provides a significantly more prudent basis for the pre 31st March 2008 CFR. Under the previous policy 13% (£9.4m) of the CFR would still be outstanding after 50 years.
- 18.3 The revised MRP policy will provide a recurring annual saving of £2m over a 12 year period - i.e. 2017/18 to 2028/29. From 2029/30 this savings will reduce to £1m to ensure the CFR is repaid within 50 years. The annual savings are predicated on establishing a phasing reserve as detailed in section 5 of Appendix B.
- 18.4 The savings from the revised MRP policy helps reduce the budget deficit facing the Council in 2017/18.

19. RECOMMENDATIONS

- 19.1 It is recommended that Members approve the following proposals:
- 19.2 **Treasury Management Outturn Position 2015/16**
- i) Note the 2015/17 Treasury Management Outturn detailed in section 4 and Appendix A.
- 19.3 **Treasury Management Strategy 2016/17 Mid-Year Review**
- ii) Note the 2016/17 Treasury Management Mid-year Position detailed in section 5.
- 19.4 **Treasury Management Strategy 2017/18 (Prudential Indicators)**
- iii) Note that detailed prudential indicators will be reported to full Council in February 2017.
- 19.5 **Borrowing Strategy 2017/18**
- iv) **Core borrowing requirement** – following the securing of exceptionally low interest rates approve that the remainder of the under borrowing is netted down against investments.
- v) To note that in the event of a change in economic circumstances that the Chief Finance Officer may take out additional borrowing if this secures the lowest long term interest cost.

- vi) **Borrowing required for business cases** – Approve the strategy of internally investing in business cases to mitigate counterparty risk, reduce borrowing costs and generate an internal investment return. Note that if this strategy is adopted that action may be taken by the Chief Finance Officer to externally borrow for these schemes if an interest rates rise is expected.

19.6 **Investment Strategy 2017/18**

- vii) Approve the increase the Counterparty Limit for Svenska Handelsbanken from £3m to £5m.
- viii) Increase the Counterparty Limit for County, Metropolitan or Unitary Councils from £5m to £8m
- ix) Increase the Counterparty Limit for District Councils, Police or Fire Authorities from £2m to £3m
- x) Increase the overall Local Authority Limit from £35m to £40m
- xi) Approve the Counterparty limits as set out in paragraph 8.8.

19.7 **Minimum Revenue Provision (MRP) Statement**

- xii) Approve the MRP statement outlined in paragraph 9.6 above.
- xiii) Approve the establishment of a phasing reserve as detailed in paragraph 5.7 of Appendix B. The recommended revised MRP policy is a long term strategy covering a 50 year period and to ensure the annual recurring saving detailed in the report can be achieved a phasing reserve will be required. This reserve can be funded from small annual contributions from the existing budget

20. **REASON FOR RECOMMENDATIONS**

- 20.1 To allow Members to fulfil their responsibility for scrutinising the Treasury Management Strategy

21. **CONTACT OFFICER**

Chris Little
Chief Finance Officer
Chris.Little@hartlepool.gov.uk
01429 523003

Prudential Indicators 2015/16 Outturn1. Ratio of Financing Costs to Net Revenue Stream

This indicator shows the proportion of the total annual revenue budget that is funded by the local tax payer and Central Government, which is spent on servicing debt. .

2015/16 Estimate		2015/16 Outturn
6.56%	Ratio of Financing costs to net revenue stream	6.57%

2. Capital Expenditure

This indicator shows the total capital expenditure for the year.

2015/16 Estimate £'000		2015/16 Outturn £'000
29,097	Capital Expenditure	21,488

The actual is lower than estimated owing to the phasing of overall expenditure between years.

3. Capital Expenditure Financed from Borrowing

This shows the borrowing required to finance the capital expenditure programme, split between core expenditure and expenditure in relation to business cases.

2015/16 Estimate £'000		2015/16 Outturn £'000
274	Core Capital Expenditure Financed by Borrowing	561
12,705	Business Case Capital Expenditure Financed by Borrowing	6,716
12,979	Total Capital Expenditure Financed by Borrowing	7,277

The actual is lower than estimated owing to the phasing of overall expenditure between years.

4. Capital Financing Requirement

CFR is used to determine the minimum annual revenue charge for capital expenditure repayments (net of interest). It is calculated from the Council's Balance Sheet and is shown below. Forecasts for future years are directly influenced by the capital expenditure decisions taken and the actual amount of revenue that is set aside to repay debt.

2015/16 Estimate £'000		2015/16 Outturn £'000
74,247	Core Capital Financing Requirement	74,803
28,557	Business Case Capital Financing Requirement	22,797
102,804	Total Capital Financing Requirement	97,600

The capital financing requirement is lower than estimated owing to the timing of capital expenditure differing from that forecast i.e. the phasing of capital expenditure and Minimum Revenue Provision (MRP), the revenue charge to pay off debt, being slightly higher than initially forecast.

5. Authorised Limit for External Debt

The authorised limit determines the maximum amount the Council may borrow at any one time. The authorised limit covers both long term borrowing for capital purposes and borrowing for short term cash flow requirements. The authorised limit is set above the operational boundary to provide sufficient headroom for operational management and unusual cash movements. In line with the Prudential Code, the level has been set to give the Council flexibility to borrow up to three years in advance of need if more favourable interest rates can be obtained.

2015/16 Limit £'000		2015/16 Peak £'000
125,000	Authorised limit for external debt	89,971

The above Authorised Limit was not exceeded during the year. The level of debt as per the Balance Sheet at the year end, excluding accrued interest was £87.700m. The peak level during the year was £89.971m.

6. Operational Boundary for External Debt

The operational boundary is the most likely prudent, but not worst case scenario, level of borrowing without the additional headroom included within the authorised limit. The level is set so that any sustained breaches serve as an early warning that the Council is in danger of overspending or failing to achieve income targets and gives sufficient time to take appropriate corrective action.

2015/16 Limit £'000		2015/16 Peak £'000
115,000	Operational boundary for external debt	89,971

The operational limit was not exceeded in the year. The peak level of debt was £89.971m.

7. Interest Rate Exposures

This indicator is designed to reflect the risk associated with both fixed and variable rates of interest, but must be flexible enough to allow the Council to make best use of any borrowing opportunities.

2015/16 Limit £'000	Upper limits on fixed and variable interest rate exposure	2015/16 Peak £'000
115,000	Fixed Rates	44,971
85,000	Variable Rates	45,000

The figures represent the peak values during the period.

8. Maturity Structure of Borrowing

This indicator is designed to reflect and minimise the situation whereby the Council has a large repayment of debt needing to be replaced at a time of uncertainty over interest rates, but as with the indicator above, it must also be flexible enough to allow the Council to take advantage of any borrowing opportunities.

	Upper Limit £000	Lower Limit £000	Actual by Maturity Date £000	Actual by soonest call date £000
Less than one year	105,000	0	2,187	22,187
Between one and five years	115,000	0	12,954	37,954
Between five and ten years	115,000	0	5,463	5,463
Between ten and fifteen years	115,000	0	3,597	3,597
Between fifteen and twenty years	115,000	0	3,406	3,406
Between twenty and twenty-five years	115,000	0	1,940	1,940
Between twenty-five and thirty years	115,000	0	2,054	2,054
Between thirty and thirty-five years	115,000	0	2,458	2,458
Between thirty-five and forty years	115,000	0	5,844	5,844
Between forty and forty-five years	115,000	0	2,460	2,460
More than forty-five years	115,000	0	45,298	298

9. Investments over Maturing over One Year

This sets an upper limit for amounts invested for periods longer than 364 days. The limit was not exceeded as a prudent approach to investment has been taken owing to uncertainties in the economy this is in line with the Treasury Management Strategy. Consequently all investments made during the year were limited to less than one year.

	1 year £000	2 year £000	3 year £000
Maximum Limit	30,000	0	0
Actual	24,000	0	0

FINANCE AND POLICY COMMITTEE

20th June 2016



Report of: Chief Finance Officer

Subject: REVIEW OF MINIMUM REVENUE PROVISION (MRP) POLICY FOR 2017/18

1. TYPE OF DECISION/APPLICABLE CATEGORY

1.1 Budget and Policy Framework Decision.

2. PURPOSE OF REPORT

2.1 To provide detailed information on the proposal included in the Medium Term Financial Strategy report to revise the Minimum Revenue Provision (MRP) policy for 2017/18 prior to this proposal being referred to the Audit and Governance Committee for detailed scrutiny, before submission to full Council.

3. BACKGROUND

3.1 In consultation with the Chair of the Finance and Policy Committee a review of the current MRP policy commenced during 2015/16 to provide an adequate lead time to review the complex technical and legal requirements in relation to the MRP. This lead time was necessary to enable this detailed report to be prepared for consideration by this Committee and also referred to the Audit and Governance Committee, prior to any changes being submitted to Council for implementation in 2017/18.

3.2 The MRP policy is part of the annual Treasury Management Strategy which provides the framework for managing the repayment of the Council's borrowing used to fund previous capital investment. The Treasury Management Strategy is considered each year by the Audit and Governance Committee before detailed proposals are referred to full Council. In normal circumstances the draft Treasury Management Strategy is considered by the Audit and Governance Committee in December and then referred to Council in February.

3.3 The existing MRP policy has been in place for eight years and to provide adequate time to consider a revised MRP policy this report is being presented to Finance and Policy Committee for information, prior to referral

to the Audit and Governance Committee for detailed scrutiny in accordance with the Council's constitution.

- 3.4 In accordance with regulations which came into force on 31st March 2008 local authorities are required, on an annual basis, to determine a MRP policy which it considers is appropriate to ensure the Capital Financing Requirement (CFR) is repaid over an appropriate period. The CFR and MRP are defined as follows:

- The CFR is the accumulated level of borrowing undertaken to finance capital expenditure; and
- The MRP is the annual charge to the revenue budget to repay the CFR.

4. REVIEW OF MRP POLICY

- 4.1 The existing MRP policy consists of two components:

- **MRP for pre 31st March 2008 borrowing**

Borrowing up to this date was all subject to Government approval via the granting of 'credit approvals', which provided authority to borrow for capital purposes. In accordance with national regulations applying at that time the MRP for non-housing capital investment was set at 4% of the CFR.

- **MRP for post 1st April 2008 borrowing**

From this date local authority borrowing is regulated via the Prudential Code, which enables individual authorities to set their own borrowing limits, subject to specific conditions being met. The most important condition is the ability to repay Prudential Borrowing over an appropriate time period.

The Council has adopted a cautious approach to using the Prudential Borrowing regime. Most borrowing has been linked to specific business cases or operational requirements, for example housing investments and operational vehicle repayments, where there is either a specific income stream, budget savings or ongoing revenue budget to fund the annual MRP and interest costs. In these cases the MRP reflects the operational life of individual assets.

- 4.2 It is not proposed to make any changes to the MRP policy for post 1st April 2008 borrowing and MRP payments will continue in accordance with existing arrangements to ensure the debt is repaid over the existing asset lives.
- 4.3 As detailed later in the report Local Authorities have had the power for a number of years to review their MRP policies, although most Authorities, including Hartlepool have continued to base MRP charges for pre 31st March 2008 borrowing on the regime apply up to that date.

- 4.4 The position in relation to pre 31st March 2008 borrowing needs to be reviewed to ensure these arrangements remain appropriate in light of the significant changes to the Local Government funding system introduced over the last few years. It is my understanding that other North East Councils have either reviewed their MRP policies for 2016/17, or are in the process of reviewing for 2017/18.
- 4.5 From this Council's perspective reviewing the MRP policy for the 2017/18 financial year provides the maximum benefits in terms of the scale of the ongoing saving which can be achieved and the number of years this saving can be sustained for. If this review had been completed in an earlier financial year the financial benefits would have been lower and sustained over a shorter time period. Further information is provided in section 5.
- 4.6 There are a number of factors to take into account in reviewing the pre 31st March 2008 MRP policy as follows:

- The current MRP rate of 4% was set by the Government at a time when the Government system for distributing Revenue Support Grant (RSG) included specific formula to allocate RSG on the basis of the approved CFR and annual MRP repayments of 4%. These arrangements meant that part of the annual MRP repayment costs were funded from RSG and part from the General Fund budget.

As a result of changes on the RSG formula and the significant cuts in RSG over the last 5 years there is no longer a specific component of RSG linked to annual MRP charges. Therefore, the previous link to Government grant no longer exists and this means a greater proportion of MRP is now falling on the General Fund budget as less Government grant is received to support these costs. This position will be exacerbated over the next few years as further Government grant cuts will be implemented.

- The current annual MRP charge is 4% of the reducing CFR and front loads repayment costs. This means a disproportionate element of borrowing costs falls on the General Fund in the earlier years of making MRP repayments. This has significant implications for services in the current financial climate;
 - The MRP current policy for pre 31st March 2008 CFR does not provide for the full repayment of this amount within a reasonable time period as highlighted in paragraph 4.7.
- 4.7 The development of a revised CFR policy needs to address the above issues and retain a prudent basis for repaying the CFR. These objectives can be achieved by basing the MRP policy on a 50 year annuity loan. The revised MRP policy is prudent and would ensure:
- The balance of the CFR at 31st March 2008 will be fully repaid after 50 years, i.e. by 31st March 2057.

- Under the current MRP policy this would not be achieved as 13% (£9.4m) of the CFR would still be outstanding at 31st March 2057. There would still be 7% (£5.1m) outstanding at 31st March 2072 – some 65 years after 31st March 2008;
- The revised MRP policy does not increase the overall level of debt, although it does change the repayment profile.
- The annual financial commitment of making MRP repayments will be fairer for both Council Tax payers and the budget over a 50 year period.

Whilst, the revised MRP charges are lower in the early years and higher in the later years, the total 'net present value' (NPV) charges are lower than the existing MRP charges over a 50 year period. This position reflects the fact that the NPV figures represent the real term value of money - i.e. £100 today is worth more than £100 in ten years time. Therefore, this provides a fairer 'real term' cost over time to the budget and Council Tax payers. As detailed in the following table the NPV for the revised MRP policy is lower than the existing MRP policy. The table also shows that the revised MRP policy provides for the full repayment of the CFR by 31st March 2057. This is not the case for the existing MRP policy.

Repayment Basis	Net Present Value (£m)*	CFR Outstanding 31st March 2057 (£m)
4% MRP on Reducing CFR Balance	32.733	9.362
50 Year Annuity Repayment	29.973	0.00

*Based on 2% Bank of England Target Inflation Rate

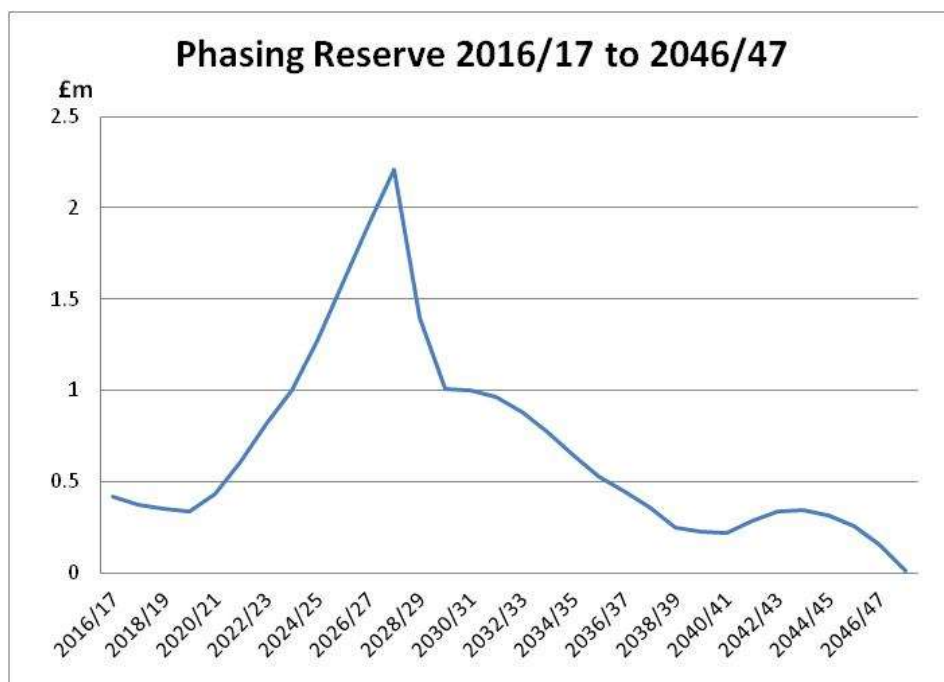
- By adopting the revised MRP policy the annual charge to the revenue budget will never exceed the current charge. This will provide a revenue savings which can be taken into account when setting the 2017/18 budget, as detailed in the next section.

5. FINANCIAL CONSIDERATIONS

- 5.1 The revised recommended MRP policy for the pre CFR at 31st March 2008 cannot be applied retrospectively as the financial accounts for 2008/09 to 2014/15 have been closed. However, the financial impact of the revised MRP policy and the current policy has been assessed. This analysis shows that the 31st March 2017 the Council will have 'overprovided MRP' by £13.8m.
- 5.2 If this policy change had been considered 12 months earlier the Council would have 'overprovided MRP' by £11.7m. As indicated earlier in the report this demonstrate that if the revised policy had been considered

earlier the overall benefit and resulting annual savings would have been lower and for a shorter number of years.

- 5.3 To address the overprovision of MRP under the existing policy it is recommended that no MRP payments are made in relation to the pre-2008 CFR for the period 2017/18 to 2028/29. The proposal will enable the Council to re-base the repayment of the CFR so that the CFR outstanding at 31st March 2028 will be at the level it should have been had the revised MRP policy applied from 1st April 2008.
- 5.4 This proposal will enable a recurring revenue budget saving of £2 million to be taken over a 12 year period i.e. 2017/18 to 2028/29.
- 5.5 In 2029/30 the savings will reduce to £1.4m. There will then be a further reduction in 2030/31 to £1m.
- 5.6 However, the key issue to recognise is that from 2030/31 the aggregate annual MRP (i.e. covering the pre and post 2008 CFR) will be £1m lower than it would have been if the existing MRP policy is maintained.
- 5.7 To ensure the annual saving detailed in the previous paragraphs can be relied upon over a 50 year period the Council will need to manage annual fluctuations by maintaining a phasing reserve. As the revised MRP policy is a long term financial strategy the phasing reserve also needs to reflect this planning horizon.
- 5.8 As summarised in the following graph small annual contributions will be made to the phasing reserves from the existing budget (net of the £2m MRP saving) up until 2026/27, when the reserve will peak at approximately £2.2m. The reserve will then begin to be used in 2027/28 when £1m will be withdrawn. This will enable a £2m benefit to the General Fund budget to be maintained in 2027/28 consisting of net recurring MRP saving of £1m and £1m draw down from the reserve. Further smaller annual draw downs of the reserve will be made in 2028/29 and future years to sustain an annual benefit of at £1m (i.e. combined value of MRP saving and reserve draw down) until 2047/48. Movements in the phasing reserve are summarised in the following graph:



6. RISK IMPLICATIONS

- 6.1 As detailed in the previous paragraphs the phasing reserves manages the risk of sustaining the financial benefits to the General Fund from adopting the revised MRP policy.

7. LEGAL CONSIDERATIONS

- 7.1 The proposal detailed in the report can be implemented in accordance with the requirement of Statutory Instrument 2008 Number 414 - the 'Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008' and provide a prudent basis for determining the annual MRP provision for the pre 31st March 2008 CFR.

8. CHILD AND FAMILY POVERTY

- 8.1 There are no direct child and family poverty implications in this instance. However, the revised recommended MRP policy will help avoid the need for cuts in services, which may have had child and family poverty implications.

9. EQUALITY AND DIVERSITY CONSIDERATIONS

- 9.1 There are no equality and diversity considerations in this instance.

10. SECTION 17 OF THE CRIME AND DISORDER ACT 1998 CONSIDERATIONS

- 10.1 None

11. STAFF CONSIDERATIONS

11.1 None

12. ASSET MANAGEMENT CONSIDERATIONS

12.1 None

13. CONCLUSIONS

13.1 In consultation with the Chair of the Finance and Policy Committee a review of the current MRP policy commenced during 2015/16 to provide an adequate lead time to review the complex technical and legal requirements in relation to the MRP. This lead time was necessary to enable this detailed report to be prepared for consideration by this Committee and also referred to the Audit and Governance Committee, prior to any changes being submitted to Council for implementation in 2017/18.

13.2 The Council is required to adopt a prudent MRP policy to repay the CFR and the policy for the pre-31st March 2008 CFR has not previously been reviewed. This position needs to be reviewed to ensure these arrangements remain appropriate in light of the significant changes to the Local Government funding system introduced over the last few years. In reviewing the MRP policy the Council needs to ensure that the proposed new policy remains prudent and this is assessed by considering 2 key questions:

- Will the revised MRP policy repay the pre-31st March 2008 CFR sooner than the existing policy?; and
- Will the revised MRP avoid deferring a higher annual MRP charge to future years?

13.3 As detailed earlier in this report the revised recommended MRP policy meets these objectives as it ensures the CFR is fully repaid within 50 years. This would not be achieved under the existing CFR policy, as this would leave an outstanding CFR of 13% (£9.4m) after 50 years. Therefore, the revised MRP policy provides a significantly more prudent basis for repaying the pre 31st March 2008 CFR.

13.4 Compared to the continuation of the previous policy the revised proposal demonstrates that at 31st March 2017 the Council will have overprovided MRP by £13.8m. This position reflects the previous policy front loading repayment cost borne by the General Fund budget over the early years of the loan repayment period. Perversely, as indicated in the previous paragraph the current MRP policy would not repay the CFR over a 50 year period.

13.5 To enable the Council to benefit from the change in MRP policy it is recommended that no MRP charges are made in relation to the pre-2008 CFR for the period 2017/18 to 2028/29. The proposal will enable the Council to re-base the repayment of the CFR so that the CFR outstanding

at 31st March 2028 will be at the level it should have been had the revised MRP policy applied from 1st April 2008.

- 13.6 The revised MRP policy will provide a recurring annual saving of £2m over a 12 year period - i.e. 2017/18 to 2028/29. From 2029/30 this savings will reduce to £1m to ensure the CFR is repaid within 50 years. The annual savings are predicated on establishing a phasing reserve as detailed in section 5.
- 13.7 The proposals in the report do not impact on post 2008 CFR and MRP payments which will continue on accordance with existing arrangements to ensure the debt is repaid over the existing asset lives. This remains the most prudent basis for repaying the post 2008 CFR.
- 13.8 In the event that Members support the recommendations in this report and these proposal are subsequently approved by full Council I can confirm that in my professional opinion the revised recommended change in the MRP policy for the pre 31st March 2008 CFR is prudent and provides a sustainable and robust basis for ensuring the repayment of the CFR.
- 13.9 The revised recommended MRP policy for the pre 31st March 2008 CFR could potentially have been implemented in an earlier financial year, but this would have provided a lower annual saving for a shorter period.
- 13.10 The recommendation to implement the revised MRP policy for the 2017/18 financial year provides the greatest annual financial savings and sustains this saving for the longest period i.e. a £2m recurring annual saving until 2028/29.

14. RECOMMENDATIONS

- 14.1 It is recommended that Members:
 - i) Note the report and the potential to achieve an annual saving of £2m over the period 2017/18 to 2028/29 by implementing a revised MRP policy for the pre 31st March 2008 CFR;
 - ii) Note that as detailed in paragraph 5.7 the recommended revised MRP policy is a long term strategy covering a 50 year period and to ensure the annual recurring saving detailed in the report can be achieved a phasing reserve will be required. This reserve can be funded from small annual contributions from the existing budget;
 - iii) Refer this report for earlier consideration by the Audit and Governance Committee to enable this savings to be built into the 2017/18 budget strategy to help address the 2017/18 budget deficit.

15. REASONS FOR RECOMMENDATIONS

- 15.1 To enable Members to consider the implications of a revised MRP policy for the pre 31st March 2008 CFR and to enable this proposal to be referred to the Audit and Governance Committee for detailed consideration.

16. BACKGROUND PAPERS

- 16.1 Treasury Management Strategy to Council on 18th February 2016.

17. CONTACT OFFICER

- 17.1 Chris Little
Chief Finance Officer
Civic Centre, Victoria Road
Hartlepool
TS24 8AY
Email chris.little@hartlepool.gov.uk
Tel: 01429 523002

AUDIT AND GOVERNANCE COMMITTEE

8 December 2016



Report of: Head of Audit and Governance

Subject: INTERNAL AUDIT PLAN 2016/17 UPDATE

1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2016/17.

2. BACKGROUND

- 2.1 In order to ensure that the Audit and Governance Committee meets its remit, it is important that it is kept up to date with the ongoing progress of the Internal Audit section in completing its plan. Regular updates allow the Committee to form an opinion on the controls in operation within the Council. This in turn allows the Committee to fully review the Annual Governance Statement, which will be presented to a future meeting of the Committee, and after review, will form part of the statement of accounts of the Council.

3. PROPOSALS

- 3.1 That members consider the issues within the report in relation to their role in respect of the Councils governance arrangements.
- 3.2 In terms of reporting internally at HBC, Internal Audit produces a draft report which includes a list of risks currently faced by the client in the area audited. It is the responsibility of the client to complete an action plan that details the actions proposed to mitigate those risks identified. Once the action plan has been provided to Internal Audit, it is the responsibility of the client to provide Internal Audit with evidence that any action has been implemented by an agreed date. The level of outstanding risk in each area audited is then reported to the Audit and Governance Committee.
- 3.3 The benefits of this reporting arrangement are that ownership of both the internal audit report and any resulting actions lie with the client. This reflects the fact that it is the responsibility of management to ensure adequate procedures are in place to manage risk within their areas of operation,

making managers more risk aware in the performance of their duties. Greater assurance is gained that actions necessary to mitigate risk are implemented and less time is spent by both Internal Audit and management in ensuring audit reports are agreed. A greater breadth of assurance is given to management with the same Internal Audit resource and the approach to risk assessment mirrors the corporate approach to risk classification as recorded in covalent. Internal Audit can also demonstrate the benefit of the work it carries out in terms of the reduction of the risk faced by the Council.

- 3.4 Table 1 below summarises the assurance placed on those audits completed with more detail regarding each audit and the risks identified and action plans agreed provided in Appendix A.

Table 1

Audit	Assurance Level
Tourism – Museum	Satisfactory
Tourism – Historic Quay	Satisfactory
Better Care Fund	Satisfactory
Stores	Limited
Cash/Bank	Satisfactory
Troubled Families Grant	Satisfactory
Resource Link Computer Application	Satisfactory
Employees Gifts and Hospitality	Satisfactory
Housing Management	Satisfactory
SIMS Computer Application	Satisfactory
Exmoor Grove Children's Home	Satisfactory
Stockton Road Children's Home	Satisfactory
Officers Expenses	Satisfactory

For Members information, Table 2 below defines what the levels of assurance Internal Audit places on the audits they complete and what they mean in practice:

Table 2

Assurance Level	Meaning
Satisfactory Assurance	Controls are operating satisfactorily and risk is adequately mitigated.
Limited Assurance	A number of key controls are not operating as intended and need immediate action.
No Assurance	A complete breakdown in control has occurred needing immediate action.

- 3.5 Stores have been judged as limited assurance. This was due to the fact that procedures were not being followed in relation to the recording and issuing of small plant hire stock items, the management of slow moving stock and the treatment of stock write-offs. A number of operational changes have been made within the Stores area and actions agreed which will have the effect of mitigating the risks identified. A follow up of the actions agreed will be carried out to ensure they have been implemented effectively.

3.6 As well as completing the audits previously mentioned, Internal Audit staff have been involved with the following working groups:

- Information Governance Group.
- Performance and Risk Management Group.

3.7 Table 3 below details the audits that were ongoing at the time of compiling the report.

Table 3

Audit	Objectives
Manor Residents Association/Who Cares North East	To give an opinion on the adequacy of the arrangements in place to manage and expend funding received from HBC.
Creditors	Ensure ordering, receiving and paying for goods/services are properly authorised and comply with the Authority's Financial Procedure Rules.
ITU Fuel Management	Ensure adequate controls are in place regarding the ordering, storage, usage and recording of fuel consumption.
Public Health; 0-5 Year Olds	Public Health Services for children and young people are provided and paid for in accordance with the contract terms and conditions resulting in the outcomes identified being achieved; payments made from public health budgets are in line with contractual agreements and are for items permitted for spend from the Public Health Grant.
Community Infrastructure Levy	Ensure adequate arrangements are in place to manage ongoing planning obligations.
Recruitment	Ensure all legislative requirements are adhered to and operate in practice.
ITU Child and Adult Provision	Ensure transport services meet service user needs.
Catering	Ensure adequate control is present in the delivery of the service.
Contracts	Ensure adequate arrangements are in place to manage the three stages of contracts.
Barnard Grove Primary	Ensure school finance and governance arrangements are in line with best practice.
Emergency Planning	To ensure effective arrangements are in place for keeping up to date with legislation / best practice and a Local Resilience Forum is established and operates according to the requirements of the CCA and associated regulations.
Adult Education	To establish that funding conditions and requirements are in place and arrangements have been established to ensure that these are adhered to.
Industrial Estate Lettings	To evaluate the procedures in place relating to income received by the Authority relating to Industrial Estate lettings and rentals.
Highways	Ensure accounting principles are adhered to in the recording of highway assets.
Disaster Recovery	Ensure adequate procedures are in place in case of unexpected events occurring.
Computer Audit Network Controls	A network strategy exists and standards and policies are in place to support its delivery.
Attendance Management	Ensure that adequate policies and procedures are in place in relation to reporting, recording and monitoring of sickness absence across departments.
Day Centres	Ensure adequate arrangements are in place for the day to day management of the centres.

3.8 The work completed and currently ongoing is in line with expectations at this time of year, and audit coverage to date has allowed Mazars to place

reliance on the scope and quality of work completed when meeting their requirements under the Audit Code of Practice.

4. RISK IMPLICATIONS

- 4.1 Members of the Audit and Governance Committee do not receive the information needed to enable a full and comprehensive review of governance arrangements at the Council, leading to the Committee being unable to fulfil its remit.

5. FINANCIAL CONSIDERATIONS

- 5.1 There are no financial considerations.

6. LEGAL CONSIDERATIONS

- 6.1 There are no legal considerations.

7. CHILD AND FAMILY POVERTY CONSIDERATIONS

- 7.1 There are no child and family poverty considerations.

8. EQUALITY AND DIVERSITY CONSIDERATIONS

- 8.1 There are no equality and diversity considerations.

9. STAFF CONSIDERATIONS

- 9.1 There are no staff considerations.

10. ASSET MANAGEMENT CONSIDERATIONS

- 10.1 There are no asset management considerations.

11. RECOMMENDATIONS

- 11.1 It is recommended that Members note the contents of the report.

12. REASON FOR RECOMMENDATIONS

- 12.1 To ensure that the Audit and Governance Committee meets its remit, it is important that it is kept up to date with the ongoing progress of the Internal Audit section in completing its plan.

13. BACKGROUND PAPERS

- 13.1 Internal Audit Reports.

14. CONTACT OFFICER


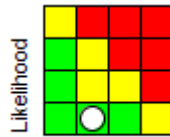
- 14.1 Noel Adamson
Head of Audit and Governance
Civic Centre
Victoria Road
Hartlepool
T24 8AY

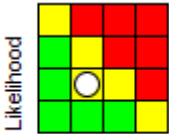

Tel: 01429 523173



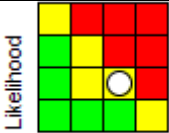
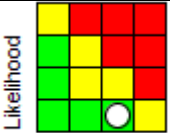
Email: noel.adamson@hartlepool.gov.uk


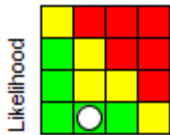
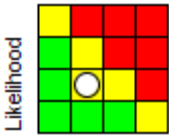
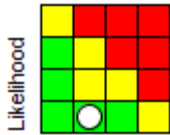

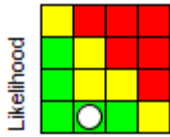
Appendix A

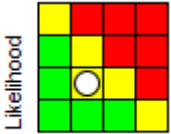
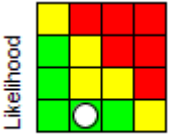
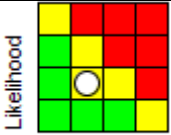
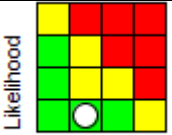
Audit	Objective			Assurance Level
Tourism – Museum	Ensure adequate controls exist in the areas of Income, Stock, Petty Cash, Security and Budget Monitoring.			Satisfactory
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.				

Audit	Objective			Assurance Level
Tourism – Historic Quay	Ensure adequate controls exist in the areas of Income, Stock, Petty Cash, Security and Budget Monitoring.			Satisfactory
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Issues raised in the H&S report are not actioned.			Health and Safety actions to be implemented immediately.	

Audit	Objective			Assurance Level
Better Care Fund	Ensure adequate arrangements are in place to manage the Better Care Fund.			Satisfactory
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Programme and project risks are not identified, recorded or monitored. No escalation of key risks to senior managers and Members		 Likelihood Impact	Continue quarterly reporting in relation to CADR060: Failure to work effectively with partners to deliver integrated health and social care services through the Better Care Fund. Continue to highlight risks through BCF Commissioning Group and escalate to BCF Pooled Budget partnership Board as appropriate.	 Likelihood Impact

Audit	Objective			Assurance Level
Stores	Review arrangements for the procurement, custody and issue of stores items to ensure that they are in accordance with the Council's Financial Procedure Rules so that stock items are secure from loss or misuse.			Limited
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
There may be increased risk that plant may be lost or returned damaged and accountability lost if return dates are not enforced.		 Likelihood Impact	Hire period end dates should be enforced so that officers return hired assets on agreed dates. The section should also update the authorised signatory list and ensure that assets are not allocated unless approved by an authorised signatory.	 Likelihood Impact
Stock items may be held which are no longer needed. Potential income from the sale of obsolete assets may not be realised.		 Likelihood Impact	A review of slow / non moving stock should be undertaken and assets which are no longer required be disposed of in accordance with Financial Procedure Rules.	 Likelihood Impact

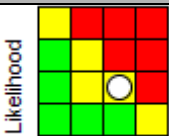
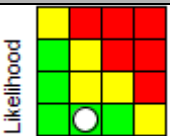
Assets may be misappropriated or used for personal use and may not be subject to appropriate investigation	 <p>Likelihood</p> <p>Impact</p>	<p>Where material variances between recorded and physical stock held occurs, the section should investigate the discrepancies and report reasons for such.</p> <p>A full review of all internal procedures for managing stock be carried out to ensure basic controls are in place for all aspects of stores operations.</p>	 <p>Likelihood</p> <p>Impact</p>
Stock disposals may not be undertaken in line with the Councils Procedure Rules.	 <p>Likelihood</p> <p>Impact</p>	<p>All supporting documentation detailing the reasons for and authorisation of write offs should be obtained and retained in a secure manner.</p>	 <p>Likelihood</p> <p>Impact</p>
Stock may not be held at appropriate levels if minimum / maximum levels are not assigned and monitored.	 <p>Likelihood</p> <p>Impact</p>	<p>Minimum / maximum levels should be assigned to all items of stock and monitored to ensure that appropriate levels are held.</p>	 <p>Likelihood</p> <p>Impact</p>

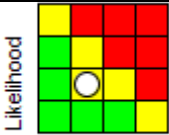
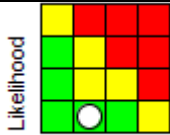
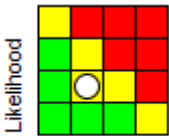
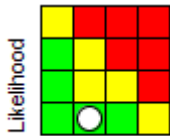
Audit	Objective	Assurance Level		
Cash/Bank	Review the procedures and processes in place for Security, Cash (and other income) collection, banking and reconciliations.	Satisfactory		
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
Access to the Cash Office and associated financial systems is not secure resulting in the potential for money to be lost or stolen. Accounts may be inadvertently or fraudulently altered.		Emergency backup packs are now held available for the cashiers. Procedures will be put in place to ensure that during periods when manual receipts are used a full reconciliation will be carried out		
Loss and/or theft of income may go undetected. Training issues may not be identified.		Reconciliations will be carried out on the reports from AIM with the reports provided by Corporate Finance.		

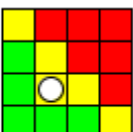
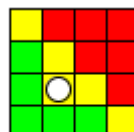
Audit	Objective	Assurance Level		
Troubled Families Grant	Ensure grant claims are in line with grant terms and conditions.	Satisfactory		
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
No unmitigated risk identified.				

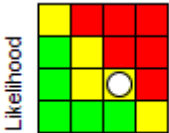
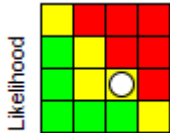
Audit	Objective			Assurance Level
Resource Link Computer Application	Ensure effective arrangements are in place to establish and maintain appropriate levels of authorisation to access Resource Link system / data. Effective password management arrangements are in place ensure that only authorised users access systems / data.			Satisfactory
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
No unmitigated risk identified.				

Audit	Objective			Assurance Level
Employees Gifts and Hospitality	Provide assurance that policy and procedures in place promote a culture of behaviour based on shared values, ethical principles and good conduct by clearly stating the responsibilities of officers to act in the best interests of the Council and not allowing any private interests to influence decision making.			Satisfactory
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
No unmitigated risk identified.				


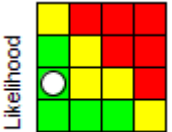
Audit	Objective			Assurance Level
Housing Management	Ensure effective arrangements are in place to mitigate risk in the operation of the housing management service.			Satisfactory
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
Properties may not be correctly/promptly recorded resulting in 'lost income'. Property disposals may not be appropriately authorised, correctly and promptly recorded.	 <p>Likelihood</p> <p>Impact</p>	Explore the use of the Qube SLM management system to monitor the void process through the next account management visit with Qube. Properties to be added to the system at handover from Building Design and Management.	 <p>Likelihood</p> <p>Impact</p>	

Refunds may be made for the wrong amount or to the wrong person and the rent account may not be correctly updated.	 Likelihood Impact	Approval stage to be developed. Housing Services to work with Council tax on best practice in this area.	 Likelihood Impact
Debts may be incorrectly written off without all avenues being pursued.	 Likelihood Impact	Former Tenant Arrears (FTA) procedure to be developed which details the process from tenancy termination to handoff to debt recovery. All FTA's will then follow the corporate debt recovery and write off procedure.	 Likelihood Impact

Audit	Objective			Assurance Level
SIMS Computer Application	Ensure effective arrangements are in place to establish and maintain appropriate levels of authorisation to access SIMS system / data. Effective password management arrangements are in place ensure that only authorised users access systems / data.			Satisfactory
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Unauthorised access could be gained to the SIMS system resulting in erroneous or fraudulent transactions and access to personal information.		<div><div>Likelihood</div><div>Impact</div></div>	Given that HBC have no control over the software the only action that seems sensible is to ensure that staff lock their devices when they move away. The other thing that needs to be identified is the importance for schools to get accounts for leavers closed immediately.	<div><div>Likelihood</div><div>Impact</div></div>

Audit	Objective			Assurance Level
Exmoor Grove Children's Home	Ensure Compliance with Quality Standards and other regulations by establishing compliance with relevant policies and procedures.			Satisfactory
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
The Home may not achieve value for money if effective arrangements are not in place to procure goods/services. Fraudulent activity may occur and go unnoticed if segregation of duties is not in place.			The unit has segregation of duties regarding purchasing and GRN goods. Admin has been approved to raise orders, manager GRN orders. Manager to speak to HBC payments regarding a unit card rather than named person.	

Audit	Objective			Assurance Level
Stockton Road Children's Home	Ensure Compliance with Quality Standards and other regulations by establishing compliance with relevant policies and procedures.			Satisfactory
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
No unmitigated risk identified.				

Audit	Objective	Assurance Level		
Officers Expenses	Up to date Policy/procedures are in place that defines procedures for processing and approving claims for reimbursement of employee expenses incurred. Arrangements in place ensure that claims are valid, accurate, and appropriately authorised and the scheme is operated in line with legislative requirements and other HBC policies.	Satisfactory		
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
Inconsistencies in processing claims for reimbursement of employee expenditure incurred if up to date policy/procedures are not in place. Non compliance with legislative requirements and other HBC Policies.	 <p>Likelihood</p> <p>Impact</p>	The Shared Service Manager will review the rates held within Integra and determine the correct values. The subsistence rates have recently been reviewed as part of a Single Status review and the updated rates applied within Integra. Clarification has been requested for the accommodation rates. These will be updated once confirmed. The Shared Service Manager will also investigate whether the Officers Expenses Scheme needs to be incorporated into the Financial Procedure Rules.	 <p>Likelihood</p> <p>Impact</p>	

AUDIT AND GOVERNANCE COMMITTEE

8 December 2016



Report of: Chief Finance Officer

Subject: DRAFT ANTI-FRAUD AND CORRUPTION
STRATEGY

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to enable members of the Audit and Governance Committee to consider and endorse the Anti-Fraud and Corruption Strategy.

2. BACKGROUND

- 2.1 In order to ensure that the Council has robust and relevant procedures and processes in place in respect of the detection and deterrence of fraud and corruption, it is necessary to periodically revisit the current strategy to ensure it is up to date and relevant. This refresh occurs on a cyclical basis to take into account any relevant changes in legislation or accepted best practice.
- 2.2 Since the Council adopted the current strategy CIPFA has updated its code of practice on managing the risk of fraud and corruption. This is considered best practice in terms of describing what actions are needed for an organisation to take to be effective in countering fraud and corruption.
- 2.3 The public sector has also been subjected to massive budget cuts at a time of financial uncertainty which also has an impact on potential fraudulent activity undertaken against the Council.

3. BETTER GOVERNANCE FORUM GUIDANCE ON COUNTERING FRAUD

- 3.1 The following Chapter is a copy of the guidance produced by the Better Governance Forum to help members of Audit Committees in their role in relation to assessing and reviewing counter fraud arrangements.

**Counter fraud arrangements –
What is the role of the Audit Committee?**

- 3.2 The Audit Committee exists to gain and provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the organisation is operating effectively – calling the organisation to account. Its key role is overseeing and assessing the risk management, control and governance arrangements and advising the governing body (for example the full Council in a local authority) on the adequacy and effectiveness of these arrangements. An Audit Committee's main responsibilities include advising the organisation on all matters relating to its governance and in doing so considering the effectiveness of the risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- 3.3 Fundamentally, the Audit Committee makes sure that effective actions to counter fraud and corruption take place. It acts to enforce, enable and encourage successful actions to counter fraud. Good counter fraud is essential for organisations that want to stop losing money, harm, hurt and fear and maintain a high status and good reputation with their stakeholders, regulators and funders. On the other hand, poor governance weakens an organisation's potential and, at worst, can pave the way for financial difficulties, poor performance, loss of reputation, fraud and corruption.
- 3.4 The mere existence of an Audit Committee does not eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an Audit Committee can:
- gain and give assurance through a process of independent and objective review
 - raise awareness of the need for sound control and the implementation of recommendations by internal and external audit.
- 3.5 Managers (directly employed people) are responsible for establishing and implementing arrangements to counter fraud and corruption. The Audit Committee is responsible for overseeing these management arrangements. The Audit Committee is powerful (e.g. it has delegated responsibility to act on behalf of the full Council, and is "those charged with governance".)

The role of the Audit Committee is crucial to support managers in achieving their anti-fraud objectives. The action needed to be effective in countering fraud and corruption is described in the CIPFA Red Book 2, *"Managing the Risk of Fraud – Actions to Counter Fraud and Corruption"*.

Countering fraud and corruption is everyone's job. It requires organisational and individual commitment to a culture of zero-tolerance, Nolan principals and ensuring that money is spent on what it was intended for.

"Taking actions to proactively stop fraud occurring in the first place is a far better remedy than merely managing the risk."

Steve Freer, Chief Executive, the CIPFA Group.

- 3.6 It is management's responsibility to establish and implement effective arrangements. It is the job of the Audit Committee to oversee, monitor, support,

enable, encourage, evaluate and when necessary enforce effective actions to counter fraud. A good committee agenda includes regular reports, updates and discussion of fraud issues and cases. It may be necessary to hold separate special meetings and/or exclude the press and public from main meetings. Committee members are better able to accomplish their role when they have been provided with training to understand their counter fraud responsibilities, for example:

- Internal control
- Fraud risk factors: the fraud triangle – incentives, rationalization, opportunity
- Good governance
- Financial management and reporting
- International Financial Reporting Standards and Standards on Auditing
- Links to achieving organisational objectives
- Final accounts.

**Counter fraud arrangements –
So, what questions should an Audit Committee ask?**

3.7 20 Questions:

This checklist can be used by those responsible for governance (Audit Committees or equivalent) to assess their contribution to the fraud defences of their organisation and determine what action is needed. This is appropriate to use in any organisation.

Checklist for those responsible for governance

Issue	Yes	No	Action
1. Have we committed ourselves to zero tolerance against fraud?			
2. Do we have appropriate strategies, policies and plans?			
3. Do we have dedicated counter-fraud resources?			
4. Do the resources cover all of the activities of our organisation?			
5. Do we receive regular reports on fraud risks, plans and outcomes?			
6. Have we assessed our management of counter fraud resources against good practice?			
7. Do we raise awareness of fraud risks with: - new staff (including agency staff)? - existing staff? - non executives/members?			
8. Do we join in appropriately with national, regional and local networks and partnerships to ensure we are up to date with current fraud risks and issues?			

9. Do we have working arrangements with relevant organisations to ensure effective sharing of knowledge and data about fraud?			
10. Do we identify areas where internal controls may not be performing as intended?			
11. Do we maximise the benefit of our participation in data matching?			
12. Do we set the right “tone at the top” to influence the creation / maintenance of a strong counter fraud culture in the organisation?			
13. Is there a level of financial investment in work to counter fraud and corruption that is proportionate to the risk that has been identified?			
14. Have we reassessed our fraud risks because of the current economic climate?			
15. Have we amended our counter-fraud action plan as a result?			
16. Have we reallocated staffing as a result?			
17. Are we satisfied that payment controls are working as intended?			
18. Have we reviewed our contract letting procedures against the good practice guidance issued by the Office of Fair Trading to reduce the risk of illegal practices such as cartels?			
19. Are we satisfied that our recruitment procedures are: - preventing employment of people working under false identities? - validating employment references effectively? - ensuring applicants are eligible to work in the UK?			
20. Do we have a reporting mechanism that encourages our staff to raise their concerns of money laundering?			

4. PROPOSED ANTI FRAUD AND CORRUPTION STRATEGY

4.1 The strategy has been update in line with CIPFA code of practice and covers the five key principles of the code:

- **Acknowledge responsibility** – the body should acknowledge its responsibility for ensuring that the risks associated with fraud and corruption are managed effectively across all parts of the organisation.
- **Identify risks** – fraud risk identification is essential to understand specific exposures to risk, changing patterns in fraud and corruption threats and the potential consequences to the organisation and its service users.
- **Develop a strategy** – an organisation needs a counter fraud strategy setting out its approach to managing its risk and defining responsibilities for action.

- **Provide resources** – the organisation should make arrangements for appropriate resources to support the counter fraud strategy.
- **Take action** – the organisation should put in place the policies and procedures to support the counter fraud corruption strategy and take action to prevent, detect and investigate fraud.

4.2 Attached as Appendices to the Strategy are documents that support the Strategy. These are the:

- Fraud Response Plan;
- Whistleblowing Policy;
- Prosecution Policy.

Taken together these documents add weight and back up the overall purpose of the strategy by outlining ways in which employees or members can voice their concerns about suspected fraud and corruption and how they will be protected if they do so. It also details the Councils commitment to prosecute cases where appropriate.

5. RISK IMPLICATIONS

5.1 The council has inadequate processes in place to combat and deal with instances of fraud leading to potential financial loss and reputational damage.

6. FINANCIAL CONSIDERATIONS

6.1 In order to ensure the ongoing stewardship of public funds, the Council must have adequate and appropriate procedures in place to protect those funds from potential fraud.

7. LEGAL CONSIDERATIONS

7.1 There are no legal considerations.

8. CHILD AND FAMILY POVERTY CONSIDERATIONS

8.1 There are no child and family poverty considerations.

9. EQUALITY AND DIVERSITY CONSIDERATIONS

9.1 There are no equality and diversity considerations.

10. STAFF CONSIDERATIONS

10.1 There are no staff considerations.

11. ASSET MANAGEMENT CONSIDERATIONS

11.1 There are no asset management considerations.

12. RECOMMENDATION

12.1 The Audit and Governance Committee considers and endorses the updated Anti-Fraud and Corruption Strategy attached as Appendix A.

13. REASON FOR RECOMMENDATIONS

13.1 To ensure that the Audit and Governance Committee is kept up to date with all issues that are relevant to the pursuance of its remit.

13.2 To ensure that the Council has in place arrangements to ensure all possible steps are taken to protect the Council against fraud.

14. BACKGROUND PAPERS

14.1 CIPFA Code of practice on managing the risk of fraud and corruption.
Fighting Fraud Locally – The Local Government Fraud Strategy.

15. CONTACT OFFICER

15.1 Chris Little
Chief Finance Officer
Civic Centre
Victoria Road
Hartlepool
TS24 8AY
Tel: 01429 523003
Email: chris.little@hartlepool.gov.uk

HARTLEPOOL BOROUGH COUNCIL

ANTI-FRAUD

&

CORRUPTION

STRATEGY

HARTLEPOOL BOROUGH COUNCIL
ANTI-FRAUD & CORRUPTION STRATEGY

CONTENTS

1. Introduction
2. Anti-Fraud Culture
3. Prevention of Fraud
4. Sanctions and Redress
5. Conclusion

Appendix 1 - Fraud Response Plan
Appendix 2 - Whistleblowing Policy
Appendix 3 - Prosecution Policy

HARTLEPOOL BOROUGH COUNCIL **ANTI-FRAUD & CORRUPTION STRATEGY**

1 INTRODUCTION

- 1.1 We (Hartlepool Borough Council) employ approximately 3500 employees and have a revenue and capital budget of over £250 million. As with other large organisations, the size and nature of our services puts us at risk of loss due to fraud and corruption both from within the Council and outside it.
- 1.2 The stewardship of public money is a fundamental responsibility for both elected Members and employees. We are committed to making sure that the opportunity for fraud and corruption is reduced to the lowest possible risk. Where there is the possibility that fraud, corruption or other irregularities have occurred, we will deal with the issue in a firm and controlled manner.
- 1.3 An important part of Hartlepool Borough Council's approach is introducing an anti-fraud and corruption strategy, which we will use to advise and guide Members and employees on our approach to the serious issues of fraud and corruption. This document also includes a 'fraud response plan' which provides more detailed guidance on how to deal with instances of potential fraud and corruption.
- 1.4 In administering its responsibilities the Council is committed to the prevention of fraud and corruption. This strategy statement emphasises to all employees the importance placed by the Council on probity, financial control and honest administration. The main message is that we expect all Members, employees, consultants, contractors, and others, to be fair and honest, and to give us any help, information and support we need to deal with fraud and corruption.
- 1.5 The Council is fully supportive of the Local Government Fraud Strategy "Fighting Fraud Locally" and has aligned this strategy and its anti-fraud and corruption framework with this recommended strategic approach in mind. The Council's Anti Fraud and Corruption Strategy also meets the requirements of CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption.

2 ANTI-FRAUD CULTURE

- 2.1 The Council's Corporate Management Team (CMT), acknowledge the threats of fraud and corruption and the harm they can cause the Council, its aims and objectives and to service users. CMT acknowledge the importance of a culture that is resilient to the threats of fraud and corruption and aligns to the principles of good governance s. As a council we will publicise what is being done to combat fraud and corruption, ensuring that the message that fraud is a serious matter and takes resources away from important services is adequately relayed. This makes fraud against the authority socially unacceptable both internally and externally.
- 2.2 We will develop clear reporting lines both internally and externally by using a whistle blowing policy, fraud hotline and fraud response plan so that employees and the public

are clear as to what action to take to report a fraud and do not shy away or feel fearful of doing so.

We will ensure that fraud and corruption is a key issue in policy design.

- 2.3 We will ensure training is provided for our employees who are involved in, or managing, internal control systems, to make sure that their responsibilities and duties are regularly reviewed and reinforced. We will also ensure that any employees, who may be involved in investigating fraud and corruption, have received suitable training.

We will ensure that everyone is aware that they have a role to play in tackling fraud and corruption.

We will make counter fraud literature available in induction packs and on the intranet.

How we expect Council Members and employees to behave

- 2.4 We expect all people and organisations that are in any way associated with us to be honest and fair in their dealings with us. We expect our Members and employees to lead by example in these matters.
- 2.5 Our separate Codes of Conduct for Members, and employees when issued, set out an approach to work that is both honest and fair. Members and employees must act in line with the codes at all times.
- 2.6 Hartlepool Borough Council Members and employees have an important part to play in our anti-fraud and corruption arrangements. We encourage our employees and Members to inform us if they suspect a case of fraud. We will endeavour not to reveal the names of the people who gave us the information. We will deal with all information fairly and confidentially. Our fraud response plan attached (Appendix 1) gives more advice on this issue for employees.
- 2.7 Members are required to record their financial and other interests and record any receipt and offering of hospitality or gifts. At formal meetings Members are required to declare any interests in the matters under discussion, where the interest is personal and prejudicial.
- 2.8 The Relevant Authorities (General Principles) Order 2001 set out the original ten guiding principles that should apply to people who serve the public and incorporated the original seven general principles of conduct developed by the Nolan Committee and which are now to be found within Section 28 of the Localism Act, 2011 (Codes of Conduct) . We will develop our working behaviour around these principles, which are set out below:

Selflessness

Members should serve only the public interest and should never improperly confer an advantage or disadvantage on any person.

Honesty & Integrity

Members should not place themselves in situations where their honesty and integrity may be questioned, should not behave improperly and should on all occasions avoid the appearance of such behaviour.

Objectivity

Member should make decisions on merit, including when making appointments, awarding contracts, or recommending individuals for rewards or benefits.

Accountability

Members should be accountable to the public for their actions and the manner in which they carry out their responsibilities, and should co-operate fully and honestly with any scrutiny appropriate to their particular office.

Openness

Members should be as open as possible about their actions and those of their authority, and should be prepared to give reasons for those actions.

Personal Judgement

Members may take account of the views of others, including their political groups, but should reach their own conclusions on the issues before them and act in accordance with those conclusions.

Respect for Others

Members should promote equality by not discriminating unlawfully against any person, and by treating people with respect, regardless of their race, age, religion, gender, sexual orientation or disability. They should respect the impartiality and integrity of the authority's statutory officers, and its other employees.

Duty to Uphold the Law

Members should uphold the law and, on all occasions, act in accordance with the trust that the public is entitled to place in them.

Stewardship

Members should do whatever they are able to do to ensure that their authorities use their resources prudently and in accordance with the law.

Leadership

Members should promote and support these principles by leadership, and example, and should act in a way that secures or preserves public confidence.

- 2.9 We expect our Senior Officers and Managers to deal firmly and quickly with anyone who is responsible for fraud or corruption. The Chief Executive in consultation with the Director of Finance and Policy and the Monitoring Officer may refer matters to the police if they suspect any criminal activity has been carried out.
- 2.10 We must ensure that any investigative process is not misused and, therefore, any abuse, such as raising unfounded malicious allegations, may be dealt with as a disciplinary matter.

3 PREVENTION OF FRAUD

Deterrence

- 3.1 We will ensure strong systems that act as a deterrent to any potential fraudster are in place so that they feel that the attempt is not worthwhile.
- 3.2 We will put effective detective processes in place so that the potential fraudster feels that the risk of getting caught is too great.
- 3.3 The presence of investigators and professional investigation work will help to make the fraudster feel that evidence of fraud can always be uncovered.
- 3.4 The use of effective legal action and sanctions and publicising results will help to make the fraudster feel penalties of being caught are too certain and too severe.
- 3.5 By seeking the effective recovery of losses to fraud from the perpetrator we will ensure the fraudster feels they stand to gain nothing from the fraud.
- 3.6 We will ensure there is a strong declaration of intent about what will happen to those who commit fraud in order to provide a deterrent effect.
- 3.7 We will ensure that the effective use of publicity will put a strong message out that the council has a zero tolerance policy on fraud and potential fraudsters may be deterred from attempting to commit the fraud if they are aware that strong measures are in place to prevent and detect their attempts.

Prevention

- 3.8 To address the potential challenge of fraud and corruption, we must endeavour to prevent it from happening in the first place. It is essential that we have clear rules and procedures, to provide a framework within which Members, employees, consultants and contractors can work. These are:
 - Financial Procedure Rules;
 - Contract Procedure Rules;
 - Scheme of Delegation;
 - Officer Employment Procedure Rules;
 - Code of Conduct for Employees;
 - Code of Conduct for Members;
 - Disciplinary Procedures;
 - Employees' Conditions of Service.
- 3.9 The Council also recognises the high level of public scrutiny of its affairs by a variety of bodies including;
 - External Audit;
 - Government Departments;
 - Inland Revenue;
 - HM Customs & Excise;
 - General Public;
 - Local and National Media.

- 3.10 The Council will positively respond to such scrutiny, demonstrating its commitment to this process, by effective liaison with External Audit and other statutory agencies to ensure that it achieves the required standards of probity.
- 3.11 Individual departments have also introduced their own measures, which are designed to control their activities. Examples include accounting control procedures, working manuals and operating procedures. Senior Officers and Managers must make sure that suitable levels of internal checks are included in working procedures, particularly financial procedures. It is important that duties are organised so that no one person can carry out a complete transaction without some form of checking process being built into the system.
- 3.12 Senior Officers and Management must make sure that all employees have access to these rules and regulations and that staff receive suitable training. Members and employees must make sure that they read and understand the rules and regulations that apply to them, and act in line with them.
- 3.13 If anyone breaks these rules and regulations we may take formal action against them. This may include, in particular circumstances, ending their employment with the Council in respect of employees and referral to the Audit and Governance Committee (exercising standards functions) following investigation in respect of Members. It will be the responsibility of the Monitoring Officer to make arrangements for dealing with complaints alleging breaches of the Members Code of Conduct applying adopted procedures and which are accessible on the Council's website.
- 3.14 We will as an authority regularly review and update our written rules and procedures.
- 3.15 To ensure the effective use of audit resources an annual risk based Internal Audit Activity Plan is in operation. This plan ensures that the challenge of potential fraud is appropriately addressed through;
 - regular reviews of controls within the main financial systems;
 - protective audit visits to Council establishments to ensure appropriate standards of financial administration are in operation;
 - detailed probity work using computer interrogation techniques.
- 3.16 By its nature, corruption is difficult to identify and prosecute successfully. The Council's approach is to have in place a robust framework of procedures and subject them to regular review.
- 3.17 We will check the previous employment records of anyone we are considering employing. This applies to both temporary and permanent employees. The role that employees are expected to play in ensuring effective internal control will be included within employee induction procedures when they begin their employment. This will be followed up with training as appropriate.
- 3.18 We are committed to working and co-operating with other organisations to prevent organised fraud and corruption. Wherever possible, we will be prepared to help and exchange information with other Authorities and organisations to deal with fraud.

- 3.19 We will participate in computerised data matching initiatives, co-ordinated by the Home Office and other government agencies and we will abide by Codes of Practice covering such processes. This kind of work needs to be tightly controlled particularly in relation to data protection issues.
- 3.20 We will make sure that full details of arrangements for reporting concerns are widely published to the public, Members and employees, and that all information we receive in this way is investigated and dealt with.

Detection and Investigation

- 3.21 The array of preventative systems, particularly internal control systems, within the Council has been designed to provide indicators of any fraudulent activity, although generally they should be sufficient in themselves to deter fraud. You should read this section with our fraud response plan (Appendix 1) and our Prosecution Policy (Appendix 3).
- 3.22 Under our Code of Conduct and Financial Procedure Rules, employees should report any suspected cases of fraud and corruption to the appropriate manager, or, if necessary, direct to the Head of Audit and Governance. Reporting cases in this way is essential to the anti-fraud and corruption strategy and makes sure that:
- suspected cases of fraud and corruption are investigated properly;
 - the fraud response plan is properly carried out;
 - there is a standard process for dealing with all suspected cases of fraud and corruption; and people and our interests are protected.
- 3.23 The Council's Whistleblowing Policy (Appendix 2) is intended to encourage and enable employees and others to raise serious concerns of misconduct. Employees reporting concerns in this way are afforded certain protection against discrimination through legislation (Public Interest Disclosure Act 1998).
- 3.24 The Head of Audit and Governance will work with the Chief Executive and Senior Officers and Managers to decide on the type and course of the investigation. This will include referring cases to the police where necessary. We will prosecute offenders and we will carry out our disciplinary procedures where appropriate. We will ensure that any internal proceedings do not prejudice any criminal case.
- 3.25 The investigation protocol agreed between HR and Internal audit will be followed in all relevant investigations.
- 3.26 We will ensure the existence of skilled Investigators in order to ensure that detected frauds are investigated to the highest possible standards and expeditiously and that good results are achieved.
- 3.27 We will ensure that the Investigators are, or become, professionally trained and accredited. This ensures that all suspected instances of fraud or corruption are investigated objectively and in the most professional and timely manner possible and that the laws surrounding investigation work are adhered to at all times.
- 3.28 We will ensure that cases accepted for investigation, are assigned following an intelligence-led and risk-based approach. This ensures that the right cases (with the

highest chance of a successful outcome) are identified for investigation and that resources are being used efficiently.

4 SANCTIONS AND REDRESS

- 4.1 Where investigations find evidence of fraud, it is desirable to seek to impose some form of sanction.
- 4.2 In every individual case, it is necessary to consider the full range of sanctions that are available at the earliest opportunity. All investigations are conducted in accordance with the Police and Criminal Evidence Act 1984 i.e. to a criminal standard and to ensure that the full range of sanctions remains available.
- 4.3 At the conclusion of an investigation we are able to make a fully informed and proportionate judgment, based on all the evidence obtained, about a recommendation on action to penalise the individual concerned.
- 4.4 **For employees** – The sanctions available are disciplinary action in accordance with the Council's **Disciplinary Code**; prosecution (either taken by the Council's Legal Services or by the Crown Prosecution Service where the Police have been involved in the investigation); Police Caution or by civil remedy (to recover money, interest and costs). Prosecution may result in imprisonment or suspended prison sentence, fine, confiscation or compensation orders or community punishment order. Any sentence will be determined by a Magistrates or Crown Court. Where a combination of sanctions is applied e.g. disciplinary action and prosecution, this is known as applying parallel sanctions.
- 4.5 **For the public** – For non-housing benefit instances of fraud or theft committed by the public against the authority, cases will be investigated to a criminal standard where the option to prosecute the offender is always considered. Where prosecution is not seen to be in the public interest or the evidence is not considered robust enough to result in a successful prosecution, civil action will be considered in order to recover any losses to the authority.
- 4.6 We will ensure that the message is put across that all methods to recover losses to fraud will be sought in order to ensure that fraud does not pay.
- 4.7 We will ensure systems are in place and staff are properly trained for the effective recovery of losses gained through fraud.
- 4.8 We will use all available methods to recover losses from fraud. Losses may be recovered through the criminal process with the use of restraint, confiscation, forfeiture and/or compensation orders. Alternatively, losses may be recovered through the civil courts where the court can make an order against the defendant requiring them to compensate the plaintiff if it is proven, on the balance of probabilities, that it has caused of action against the defendant and the amount taken.

5 CONCLUSION

- 5.1 We are committed to tackling fraud and corruption whenever it happens. Our response will be effective and organised and will rely on the principles included in this document. The Council has in place a clear network of systems and procedures to assist it in the fight against fraud and corruption. It is determined that these arrangements will keep pace with any future developments in both preventative and detection techniques regarding fraudulent or corrupt activity that may affect its operation.
- 5.2 To this end, the Council maintains a continuous overview of such arrangements through, in particular, its Section 151 Officer, and its Internal and External Auditors.

Appendix 1**FRAUD RESPONSE PLAN****1. INTRODUCTION**

- 1.1 Hartlepool Borough Council is committed to the highest possible standards of openness, probity and accountability in all its affairs. It is determined to develop a culture of honesty and opposition to fraud and corruption.
- 1.2 In line with that commitment, the Council's Anti-Fraud and Corruption Strategy the principles we are committed to in relation to preventing, reporting and managing fraud and corruption.
- 1.3 This Fraud Response Plan reinforces the Council's robust approach by setting out the ways in which employees or members of the public can voice their concerns about suspected fraud or corruption. It also outlines how the Council will deal with such complaints.

2. WHAT DO WE WANT TO KNOW ABOUT?

- 2.1 This Plan is intended to be implemented where suspicions of fraud or corruption have been raised.

Fraud is defined as:

"The intentional distortion of financial statements or other records by persons internal or external to the Authority which is carried out to conceal the misappropriation of assets or otherwise for gain".

Corruption is defined as:

"The offering, giving, soliciting or acceptance of an inducement or reward, which may influence the action of any person".

- 2.2 Concerns or allegations which fall within the scope of other, existing procedures e.g. discrimination issues will normally be referred for consideration under those procedures.
- 2.3 Fraudulent or corrupt acts may include:
- Systems Issues i.e. where a process/system exists which is prone to abuse by either employees or the public;
 - Financial Issues i.e. where individuals or companies have fraudulently obtained money from the Council e.g. invalid invoices/work not done;
 - Equipment Issues i.e. where Council equipment is used for personal use e.g. unauthorised/inappropriate personal use of Council vehicles;
 - Resource Issues i.e. where there is a misuse of resources e.g. theft of materials;
 - Other Issues i.e. activities undertaken by employees of the Council which may be: unlawful; against the Council's Procedure Rules or policies, falls below established standards or practices; or amounts to improper conduct e.g. receiving inappropriate hospitality.

- 2.4 This is not an exhaustive list. If you are in any doubt about the seriousness of your concern, advice and guidance can be obtained from the Head of Audit and Governance on 01429 266522.

3. SAFEGUARDS

- 3.1 **Harassment or Victimisation** – The Council recognises that the decision to report a concern can be a difficult one to make, not least because of the possible fear of reprisal from those responsible for the malpractice. The Council will not tolerate harassment or victimisation and will take action to protect those who raise a concern in good faith.
- 3.2 **Confidentiality** – The Council will do its best to protect an individual's identity when he or she raises a concern and does not want their name to be disclosed. It must be appreciated, however, that the investigation process may reveal the source of the information and a statement by the individual may be required as part of the evidence.
- 3.3 **Anonymous Allegations** – This policy encourages individuals to put their names to allegations. Concerns expressed anonymously are much less powerful, but they will be considered at the discretion of the Director of Finance and Policy and Chief Executive of the Council. In exercising this discretion, the factors to be taken into account would include:
- the seriousness of the issues raised;
 - the credibility of the concern; and
 - the likelihood of confirming the allegation from attributable sources.
- 3.4 **Untrue Allegations** – If an allegation is made in good faith, but it is not confirmed by the investigation, no action will be taken against the originator. If, however, individuals make malicious or vexatious allegations, disciplinary action may be considered against the individual making the allegation.

4. WHAT SHOULD AN EMPLOYEE DO IF THEY SUSPECT FRAUD OR CORRUPTION?

- 4.1 Employees may be the first to realise that there is something seriously wrong within the Council. However, they may not express their concerns because they feel that speaking up would be disloyal to their colleagues or to the Council. They may also fear harassment or victimisation. In these circumstances, it may be easier to ignore the concern rather than report what may just be a suspicion of malpractice.
- 4.2 The Council's Whistleblowing Policy is intended to encourage and enable staff to raise legitimate concerns within the Council rather than overlooking a problem or blowing the whistle to the media or other external bodies. This policy has been discussed with the relevant Trade Unions and professional organisations and has their support.
- 4.3 A full copy of the Whistleblowing Policy is provided in the staff handbook and can be obtained from your Customer and Workforce Services Section, Trade Union Representative or Chief Solicitor.

- 4.4 In essence, employees should approach the relevant line manager, who, if they find the claim to be substantiated, then in accordance with the Whistleblowing Procedure, the Head of Paid Service, Director of Finance and Policy or alternatively the Head of Audit and Governance should be informed. The nature of the complaint will determine the Council's course of action.
- 4.5 Internal Audit can be contacted by phone on 01429 266522 or by writing to the Head of Internal Audit, Level 3, Civic Centre, Victoria Road, Hartlepool.

5. WHAT SHOULD A MEMBER OF THE PUBLIC DO IF THEY SUSPECT FRAUD OR CORRUPTION?

- 5.1 The Council encourages members of the public who suspect fraud and corruption to contact the Chief Executive, Director of Finance and Policy, Chief Solicitor and Monitoring Officer or the Head of Audit and Governance in the first instance.
- 5.2 The Internal Audit Section is a unit, which operates independently of all other Council Services, whose work includes reviewing procedures with the following aims:
- To deter, prevent, detect and investigate fraud and corruption.
 - To see appropriate action taken against those who commit or seek to commit some sort of fraud or corruption.
 - To develop an anti-fraud culture.

The possible courses of action taken by the Council are outlined below.

- 5.3 Internal Audit can be contacted by phone on 01429 266522, or by writing to the Head of Audit and Governance, Level 3, Civic Centre, Victoria Road, Hartlepool.

6. HOW WILL HARTLEPOOL BOROUGH COUNCIL DEAL WITH ALLEGATIONS OF FRAUD OR CORRUPTION?

- 6.1 For issues raised by employees or members of the public, the action taken by the Council will depend on the nature of the concern. The matters raised may be investigated internally or referred to the Police.
- 6.2 Within 10 working days of a concern being received, the Chief Executive or designated officer will write to the complainant:
- acknowledging that the concern has been received;
 - indicating how it is proposed the matter will be dealt with;
 - giving an estimate of how long it will take to provide a final response;
 - telling them whether any initial enquiries have been made; and
 - telling them whether any further investigations will take place, and if not, why not.
- 6.3 The Council accepts that those people who reported the alleged fraud or corruption need to be assured that the matter has been properly addressed. Thus, subject to legal constraints, they will receive information about the outcomes of any investigation.

7. ALTERNATIVE METHODS FOR TAKING A COMPLAINT FORWARD

- 7.1 If either a member of the public or an employee feels it is right to take the matter outside these processes, the following are possible ways forward:
- elected Members of the Council. If you are unsure how to contact them, call the Council on 01429 266522 for advice.
 - the External Auditors – who are the organisation, appointed to scrutinise the Council's finances and performance. By law, they must be completely independent from the Council.
 - your Trade Union – employees may invite their Trade Union to raise a matter on their behalf.
 - the Police – suspicions of fraud or corruption may be reported directly to the Police.
 - the Local Government Ombudsman – this is an independent body set up by the Government to deal with complaints against Authority's in the United Kingdom.
 - Public Concern at Work – this is an independent authority which seeks to ensure that concerns about malpractice are properly raised and addressed in the workplace.

HARTLEPOOL BOROUGH COUNCIL

"CORPORATE WHISTLE BLOWING" PROCEDURE

1. Introduction

Hartlepool Borough Council is committed to ensuring that all its activities are lawful and that the highest possible standards are observed. A number of rules, regulations and procedures exist which are intended to promote high standards and to investigate and rectify any shortcomings.

Employees are often the first to realise when something is wrong within a Council but may not always voice their concerns. This might be because they fear reprisals or harassment or because they think speaking up is disloyal to colleagues.

This procedure provides a way in which concerns about malpractice or wrongdoing may be raised and investigated when other procedures are not sufficient or are inappropriate. It is intended to encourage employees to raise serious concerns and to protect them from any form of reprisal.

All employees of the Council may use this procedure. This includes permanent and temporary staff. It also covers agency personnel and staff seconded to a third party. Any concerns relating to the third party, if relevant to the individual's secondment, can also be raised under this procedure.

Contractors working for the Council may also use the provisions of these procedures to make the Council aware of any concerns that the Contractor's staff may have with regard to any contractual or other arrangement with the Borough Council.

2. Existing Procedures

The grievance procedure exists for employees to raise complaints about their employment. Copies of this are available in all departments and from the Personnel Division. The Employee Support Policy provides a special procedure for those wishing to make a complaint about harassment, victimisation or discrimination. Copies of this are available in all departments or can be obtained from the Employee Support Officer. This procedure does not replace **the** complaints procedure.

3. Aims of the Whistle Blowing Policy

- Encourage employees to feel confident in raising serious and to question and act upon their concerns.
- Provide ways for employees to raise those concerns and get feedback on any action as a result.
- Ensure that employees get a response to their concerns and that they are aware of how to pursue them if they know what to do if they are not satisfied with any actions.

- Reassure employees that if they raise any concerns in good faith and reasonably believe them to be true, they will be protected from possible reprisals or victimisation.

4. What is Malpractice or Wrongdoing?

Employees are encouraged, and expected, to report malpractice or wrongdoing and could in certain circumstances be subject to disciplinary action if they know of this and do not report it. Malpractice or wrongdoing might include any of the following. This is not a comprehensive list but gives examples of the sorts of things which could be raised, under the procedures listed in section 2, where appropriate, or under this procedure:-

- a) Unlawful acts or omissions, acts which are criminal or in breach of civil law or statutory duty.
- b) failure to comply with appropriate professional or other established standards;
- c) corruption or fraud;
- d) actions which are likely to cause physical danger to any person;
- e) failure to take reasonable steps to report and rectify any situation which is likely to cause a significant avoidable cost, or loss of income, to the Council or would otherwise seriously prejudice the Council;
- f) failure to draw relevant matters to the attention of Councillors or superior officers, or failure to comment appropriately on matters within an employee's responsibilities which might significantly affect an action or decision of, or on behalf of, the Council.
- g) abuse of power, or the use of the Council's powers and authority for any unauthorised or ulterior purpose;
- h) unfair discrimination in the Council's employment or services;
- i) other unethical conduct

5. How do I Raise a Concern?

If an employee has a concern then he/she should raise it with someone as soon as possible. If there are reasons why he/she cannot raise it with his/her manager, or through the procedures listed in section 2, then the following procedure should be followed.

5.1 Raise the matter with

- The Council's Monitoring Officer
Mr P J Devlin- Chief Solicitor
- or in the absence of the Council's Monitoring Officer, with the Deputy Monitoring

Officer Ms A Carman – Legal Services Manager / Solicitor.

- 5.2 Letters to the Chief Solicitor will not be opened by anyone else if marked Personal & Confidential. The Chief Solicitor can be contacted on tel: 266522 ext. 3003.
- 5.3 Whilst concerns may be raised verbally it is helpful to have details in writing.
- 5.4 When a matter is raised with the Chief Solicitor he/she will arrange for one of the following to take place:-
 - his/her own investigations
 - investigation by another officer or Internal Audit as appropriate
 - referral to the Police
 - referral to the external Auditor
 - referral for independent enquiry
 - referral for consideration under another procedure (disciplinary, grievance, etc)
 - no action
- 5.5 The decision will be based upon the information provided, and an interview with the employee raising the concern (off site if necessary) if appropriate. In respect of a written report, or a verbal report which the Chief Solicitor has agreed to accept, the Chief Solicitor will advise the employee in writing within 10 days of what is to happen giving an estimate of the time any investigation is expected to take. The Chief Solicitor will report as necessary to Council Members.

Some concerns may be resolved by agreed action without any need for investigation.

If urgent action is required this will be taken before any investigation is conducted.

6. **Support and Safeguards**

It can be difficult for employees to raise concerns and Hartlepool Borough Council aims to support those who do so and to take steps to ensure that they are not victimised or harassed. The Chief Solicitor may take appropriate action to protect those raising concerns in good faith. An employee who raises concerns in good faith will not be penalised by the Council, eg. in relation to general treatment or to any job or promotion application, or any request for a reference.

This procedure does not override or affect an employee's rights to protection under the provisions of the Employment Rights Act 1996 inserted by the Public Interest Disclosure Act 1998, as amended. The Act protects employees against detriment as a result of making a "protected disclosure" and specifies a range of matters, which may be the subject of a protected disclosure. Namely;

- a) that a criminal offence has been committed, is being committed or is likely to be committed,
- b) that a person has failed, is failing or is likely to fail to comply with any legal obligation to which he is subject,

- c) that a miscarriage of justice has occurred, is occurring or is likely to occur,
- d) that the health or safety of any individual has been, is being or is likely to be endangered,
- e) that the environment has been, is being or is likely to be damaged, or
- f) that information tending to show any matter falling within any one of the preceding paragraphs has been, is being or is likely to be deliberately concealed.

Some of the malpractice referred to in this procedure, e.g. commission of a criminal offence, would also be the subject of the statutory protection afforded by the Act; others, e.g. the provision of misinformation to the Council or causing financial loss to the Council, would not be subject to statutory protection. The Council believes that its employees are entitled to the additional protection afforded by the procedure.

6.1 Victimisation

Disciplinary action will be taken against anyone victimising or harassing an employee because he/she has raised concerns.

6.2 Anonymous Allegations

Anonymous allegations are necessarily difficult to investigate and, for that reason, cannot always be given the same consideration as attributed allegations. In considering whether any action is to be taken the seriousness and credibility of the allegations will be taken into account as will the feasibility of investigating them and the reason(s) for anonymity being requested.

6.3 Confidentiality

It is much easier to investigate concerns when those raising them are willing for their names to be disclosed if necessary in the investigation. However if employees specifically ask for their names not to be disclosed then this will be respected subject only to any requirement to disclose having the force of law. This may, in some situations impede the investigation. If the only evidence of wrongdoing or malpractice is that of the complainant as an eyewitness of the complainant then he/she will usually need to be prepared to make a statement.

7. Links to Other Procedures

7.1 Disciplinary Action

Employees who are subject to disciplinary action and who raise concerns under this procedure should note that the disciplinary action will not necessarily be halted or delayed as a result. However in some circumstances this may be appropriate or necessary.

7.2 Unproven Allegations

If an employee makes an allegation in good faith and this is not confirmed in the investigation no action will be taken against him/her. The Council will also try to minimise any negative effects of an allegation being investigated and not confirmed.

7.3 Deliberately False Allegations

The Council will take disciplinary action against any employee deliberately making allegations they know to be false or unfounded, whether frivolously or maliciously. Action will also be taken against any employee inventing or otherwise falsifying facts in order to make a complaint.

7.4 Other Procedures

If a matter is raised under the Whistle-Blowing procedure which could more appropriately be dealt with under another procedure the Chief Solicitor will consult the appropriate senior officer who would operate the other procedure and, if this is agreed, refer the matter on, advising the complainant accordingly.

8. Taking Concerns/Complaints Further

8.1 If employees are not able to have their concerns addressed satisfactorily through this or the Council procedures then they may need to consider taking matters outside the authority and consulting one of the following:-

- the Audit Commission
- the Police
- the Local Government Ombudsman
- the Monitoring Officer (for issues regarding a councillors conduct)
- the relevant professional bodies or regulatory organisations
- Public Concern at Work
- The employees Trade Union
- The Citizens Advice Bureau
- The Information Commissioner
- The Health and Safety Executive

Adult and Community Services employees are encouraged to refer matters of concern to the Commission for Social Care Inspection since such referral is encouraged nationally.

Details of how to contact the above is attached at Appendix 1

Note:

Public Concern at Work is the Whistle blowing charity. The organisation has four primary activities;

- to offer free, confidential advice to people concerned about crime, danger or wrong doing at work.***
- to help organisations deliver and demonstrate good governance.***

- **inform public policy and**
- **promote individual responsibility, organisational accountability and the public interest.**

Note:

In conjunction with Public Concern at Work, British Standards (BSI) has published a Code of Practice on Whistle Blowing arrangements under the classification PAS 1998/2008. Copies of the code can be downloaded from www.bsigroup.com/PAS1998

- 8.2 The, Chief Solicitor can give advice on raising concerns externally, as can the trades unions and professional associations.
- 8.3 Employees who raise concerns outside the Council should ensure that confidential information is not disclosed inappropriately. The Chief Solicitor can advise on this.
- 8.4 The Public Interest Disclosure Act 1998 also provides for protection under the Act to be extended to disclosure to a 'prescribed person' identified by the Secretary of State in regulations made under the Act. For matters relating to the proper conduct of public business, value for money, fraud and corruption in local government bodies, the 'prescribed person' is the Audit Commission for England and Wales.

9. Records of Complaints

The Chief Solicitor who is the Monitoring Officer will be responsible for maintaining records of concern raised and of outcomes. Records will be kept in a form, which does not compromise confidentiality.

10. Trades Unions

This procedure has been agreed with the Hartlepool Joint Trade Union Committee and Trades Union representatives as indicated may give advice on the use of this or other procedures to raise concerns. Employees raising concerns may invite their Trades Union representative, or a colleague, to be present during any meetings or interviews.

Appendix 1

Contact details for outside organisations as outlined in Paragraph 7.1 of the Whistle Blowing Procedure

Name of Organisation	Address	Telephone Number	E-mail Address
Police – Cleveland Constabulary	P.O. Box 70 Ladgate Lane Middlesbrough TS8 9EH	(01642) 326326	enquiries@cleveland.pnn.police.uk
Local Government Ombudsman	Local Government Ombudsman PO BOX 4771 Coventry CV4 OEA	01904 380200	advice@.lgo.org.uk
Monitoring Officer	Hartlepool Borough Council Civic Centre Victoria Road Hartlepool TS24 8AY	01429 523003	
Public Concern at Work	Suite 301 16 Baldwins Gardens London EC1N 7RJ	020 7404 6609	whistle@pcaw.co.uk
Commission for Social Care Inspection	33 Greycoat Street London SW1P 2QF	0845 015 0120	enquiries@csci.gsi.gov.uk
Relevant Professional bodies or regulatory organisations	Enquire for further information at Civic Centre Hartlepool	01429 523003	portal.master@hartlepool.gov.uk

Appendix 3

PROSECUTION POLICY

Hartlepool Borough Council is committed to preventing fraud and corruption and has developed an 'Anti-Fraud and Corruption Strategy' in order to minimise its occurrence.

The Council will constantly monitor its systems and amend procedures as required.

This procedure does not supersede other internal disciplinary codes implemented by the Council and internal offenders (e.g. Council employees or Members) will be liable to general disciplinary procedures as well as prosecution.

General

The Council's policy on fraud is to:

- deter it in the first instance;
- detect it quickly;
- investigate it efficiently; and
- prosecute offenders when appropriate.

In most cases, the Chief Executive in consultation with the Monitoring Officer/Director of Finance and Policy or the Head of Audit and Governance, will be involved in deciding if reporting the matter to the Police is appropriate. In exceptional circumstances the Monitoring Officer/Director of Finance and Policy or the Head of Audit and Governance may refer matters to the Police direct without prior consultation with the Chief Executive.

In deciding whether a fraud should be reported to the police the following factors will be taken into account.

- the extent of the fraud/corruption in financial terms;
- the sufficiency and appropriateness of evidence;
- whether the public interest will be served.

In general, all cases, where there is evidence of a criminal act, will be reported to the Police.

AUDIT AND GOVERNANCE COMMITTEE

8 December 2016



Report of: Chief Finance Officer

Subject: DRAFT CODE OF CORPORATE
GOVERNANCE

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to enable members of the Audit and Governance Committee to consider and endorse the Council's Draft Code of Corporate Governance.

2. BACKGROUND

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) has updated its guidance around governance arrangements in the public sector and published Delivering Good Governance in Local Government Framework. The framework applies to annual governance statements prepared for the financial year 2016/17.
- 2.2 The concept underpinning the framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. To this end it is necessary that the Council review and update its own Code of Corporate Governance in order to comply with the framework.

3. COMPLIANCE WITH THE FRAMEWORK

- 3.1 The framework is intended to assist authorities individually in reviewing and accounting for their own unique approach to good governance. The overall aim is to ensure that:
- Resources are directed in accordance with agreed policy and according to priorities.
 - There is sound and inclusive decision making.

- There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.
- 3.2 The framework sets out the core principles of good governance which are taken from CIPFA's International Framework: Good Governance in the Public Sector 2014. The seven core principles of the framework are as follows:
- **Behaving with integrity, demonstrating strong commitment to ethical values, respecting the rule of law.**
 - **Ensuring openness and comprehensive stakeholder engagement.**
 - **Defining outcomes in terms of sustainable economic, social, and environmental benefits.**
 - **Determining the interventions necessary to optimise the achievement of the intended outcomes.**
 - **Developing the entities capacity, including the capability of leadership and the individuals within it.**
 - **Managing risks and performance through robust internal control and strong public financial management.**
 - **Implementing good practices in transparency, reporting and audit to deliver effective accountability.**
- 3.3 The Councils Code of Corporate Governance has been reviewed and updated in line with the principles outlined above. This approach builds on the Councils previous code, complying with up to date best practice.

4. RISK IMPLICATIONS

- 4.1 The council does not comply with statutory requirements and best practice in the design of its governance arrangements leading to non compliance with statutory requirements and reputational damage.

5. FINANCIAL CONSIDERATIONS

- 5.1 There are no financial considerations.

6. LEGAL CONSIDERATIONS

- 6.1 There are no legal considerations.

7. CHILD AND FAMILY POVERTY CONSIDERATIONS

- 7.1 There are no child and family poverty considerations.

8. EQUALITY AND DIVERSITY CONSIDERATIONS

8.1 There are no equality and diversity considerations.

9. STAFF CONSIDERATIONS

9.1 There are no staff considerations.

10. ASSET MANAGEMENT CONSIDERATIONS

10.1 There are no asset management considerations.

11. RECOMMENDATION

11.1 The Audit and Governance Committee considers and endorses the updated Code of Corporate Governance attached as Appendix A.

12. REASON FOR RECOMMENDATIONS

12.1 To ensure that the Audit and Governance Committee is kept up to date with all issues that are relevant to the pursuance of its remit.

12.2 To ensure that the Council has in place arrangements that ensure its corporate governance arrangements meet statutory and best practice requirements.

13. BACKGROUND PAPERS

13.1 CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016.

CIPFA/SOLACE Delivering Good Governance in Local Government Guidance Notes for English Authorities Framework 2016.

14. CONTACT OFFICER

14.1 Chris Little
Chief Finance Officer
Civic Centre
Victoria Road
Hartlepool
TS24 8AY
Tel: 01429 523003
Email: chris.little@hartlepool.gov.uk

Appendix A



Draft
**HARTLEPOOL BOROUGH COUNCIL
CODE OF CORPORATE
GOVERNANCE**

HARTLEPOOL BOROUGH COUNCIL'S

CODE OF GOVERNANCE

1. INTRODUCTION

- 1.1 Hartlepool Borough Council recognises that good governance leads to good management, attainment of good performance and overall proper stewardship of public monies. Additionally, through public engagement and empowerment this should ultimately lead to beneficial outcomes for citizens and service users. Good governance enables local authorities to pursue their visions in an effective and responsive manner, as well as underpinning their visions through appropriate mechanisms for control and effective management of risk.
- 1.2 All public authorities should aim to meet the standards of the best possible governance arrangements which should not only be sound but also seen to be properly robust and effective. Governance is about how local government bodies ensure that they are doing things right for the community they serve, in a timely, inclusive, open, honest and accountable manner and it comprises the systems and processes as well as cultures and values by which local government is directed and controlled and through which it is publicly accountable. Of primary importance, is the way any public body engages with and where appropriate, provides leadership and direction to their communities.
- 1.3 Hartlepool Borough Council is committed to being at the forefront of those local authorities that are able to demonstrate that they have the necessary Corporate Governance to excel in the Public Sector. This Code is a public statement that sets out the way in which the Council will meet that commitment.

2. CODE OF GOVERNANCE FRAMEWORK

- 2.1 Hartlepool Borough Council is committed to applying the core principles as set out in the SOLACE-CIPFA Good Governance Framework which comprises the following key elements;

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

- Members and officers act in the public interest, leading by example, protecting the reputation of the Authority.

Ensuring openness and comprehensive stakeholder engagement.

- Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes, engaging with local people and other stakeholders to ensure robust public accountability.

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

- Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

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

- Taking informed and transparent decisions which are subject to effective scrutiny and management of risk;

Developing the Authorities capacity, including the capability of its leadership and the individuals within it.

- Continuously developing appropriate skills and capacity of Members and Officers to achieve desired outcomes.

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

- Implementing robust risk and performance management arrangements, ensuring they work effectively.

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

- Communicating to the public and stakeholders in an understandable and transparent manner.

- 2.2 Each of these Principles is an important part of Hartlepool Borough Council's Corporate Governance arrangements. This statement describes how the Council will meet and demonstrate its commitment to good Corporate Governance. Also described in this document is how and by whom the Council's Corporate Governance arrangements will be monitored and reviewed.

3. THE COUNCIL'S CORPORATE GOVERNANCE PRINCIPLES

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

The Council will ensure a culture exists where members and officers behave with integrity, establishing specific standard operating principles for the Authority that are communicated and understood. Members and Statutory Officers fulfil their responsibilities in accordance with legislative and regulatory requirements.

The Council will do this by establishing and keeping under review:

- The Council's values;
- A Member Code of Conduct;
- An Officer Code of Conduct;
- A Protocol governing Member/Officer relations;
- A Protocol detailing the roles of Members and officers in decision-making (Part 3, Responsibility for Functions);
- Systems for reporting and dealing with any incidents of fraud and corruption, for example, through 'Whistle-blowing' procedures and anti-fraud policies and procedures including a policy relating to combating money laundering.
- Ensure that systems and processes for financial administration, financial control and protection of the authority's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.

3.2 Ensuring openness and comprehensive stakeholder engagement.

The Council will seek and respond to the views of stakeholders and the community. The Council will do this by:

- Forming and maintaining relationships with the leaders of other organisations;
- Publishing a Forward Plan of Key Decisions to be taken during the relevant period;
- Having a policy on consultation and providing access to a range of consultation methods, particularly to those groups not yet reached;
- Encouraging and supporting the public in submitting requests for the review of services and recommendations for improvement;
- Providing and supporting ways for Citizens to present community concerns to the Full Council and Neighbourhood Forums.
- Delivering services to meet the needs of the local community, and put in place processes to ensure that they operate effectively in practice;
- Directing resources to those that need services most;

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

The Council will explain and report regularly on activities, performance and the Council's financial position. Timely, objective and understandable information about the Council's activities, achievements, performance and financial position will be provided.

The Council will do this by annually publishing:

- A Council Plan;
- Externally audited accounts;
- Robust performance information.

The Council will foster a culture of behaviour based on shared values, ethical principles and good conduct. The Council will do this by establishing and keeping under review:

- The Council's values;
- A Member Code of Conduct;
- An Officer Code of Conduct;
- A Protocol governing Member/Officer relations;
- A Protocol detailing the roles of Members and officers in decision-making (Part 3, Responsibility for Functions);
- Systems for reporting and dealing with any incidents of fraud and corruption, for example, through 'Whistle-blowing' procedures and anti-fraud policies and procedures including a policy relating to combating money laundering.
- Ensure that systems and processes for financial administration, financial control and protection of the authority's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.

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

The Council will ensure that appropriate legal, financial and other professional advice is considered as part of the decision-making process.

The Council will be transparent about how decisions are taken and recorded.

The Council will do this by:

- Ensuring that all 'Key Decisions' are made in public and that information relating to those decisions is made available to the public (1);
- Ensuring that all decisions of Policy and Regulatory Committees (including those discharging statutory responsibilities) of the

Council are made in Public and that information relating to those decisions is made available to the public (2);

- Recording all decisions that are made by other committees and officers (3) and making the details publicly available;
- Having rules and procedures which govern how decisions are made.

(1) Except where that information is exempt under the provisions of the Freedom of Information Act or determined as being confidential by Government or otherwise exempt by the Council.

(2) Except where that information is exempt under the provisions of the Freedom of Information Act or determined as being confidential by Government or otherwise exempt by the Council.

(3) For Officers this relates to Key, Major and significant operational decisions only.

The Council will ensure that the necessary roles and responsibilities for the Governance of the Council are identified and allocated so that it is clear who is accountable for decisions that are made.

The Council will:

- Appoint Committees to discharge the Council's Policy responsibilities;
- Appoint Committees to discharge the Council's Regulatory and Statutory responsibilities;
- Appoint Committees to discharge joint responsibilities with other Authorities;
- Have in place a scheme of delegated Council responsibilities to Officers;
- Have in place effective and comprehensive arrangements for the review and overseeing of services;
- Ensure that the Director of Finance and Policy (as the designated Section 151 Officer) reports directly to the Chief Executive (designated as the Head of Paid Service) and is a member of the Corporate Management Team;
- Ensure that the authority's governance arrangements allow the Director of Finance and Policy and the Councils Monitoring Officer direct access to the chief executive and to other members of the Corporate Management Team.
- Ensure that the Director of Finance and Policy leads the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively;
- Ensure that budget calculations are robust and reserves adequate, in line with statutory requirements;

- Ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls will apply consistently to all activities including partnership arrangements, outsourcing or where the authority is acting in an enabling role.

3.5 Developing the Authorities capacity, including the capability of its leadership and the individuals within it.

The Council will ensure that those charged with the governance of the Council have the skills, knowledge and experience they need to perform well. The Council will do this by:

- Implementing a Workforce Strategy including Member Development;
- Cascading regular information to Members and staff.

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

The Council will ensure;

- An effective internal audit function is resourced and maintained and that the authority's governance arrangements allow the Head of Audit and Governance and Director of Finance and Policy direct access to the audit and governance committee and external audit;
- Ensuring the authority's arrangements for financial and internal control and for managing risk are addressed in annual governance reports and the authority puts in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes;
- Ensuring the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the Authority and the delivery of services.

The Council will operate a risk management system that aids the achievement of its strategic objectives, protects the Council's reputation and other assets and is compliant with statutory and regulatory obligations. The Council will ensure that the risk management system:

- Formally identifies and manages risks;
- Involves elected members in the risk management process;
- Maps risks to financial and other key internal controls;
- Incorporates service continuity planning; and

- Reviews and, if necessary, updates its risk management processes at least annually.

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

- Communicating to the public and stakeholders in an understandable and transparent manner.

The Council will do this by:

- Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the authority meets its policy and service objectives and provides effective stewardship of public money and value for money in its use;
- Ensure that the authority maintains a prudential financial framework; keeps its commitments in balance with available resources; monitors income and expenditure levels to ensure that this balance is maintained and takes corrective action when necessary;
- Ensure compliance with CIPFA's Code on a Prudential Framework for Local Authority Capital Finance and CIPFA's Treasury Management Code;
- Developing effective relationships and partnerships with other public sector agencies and the private and voluntary sectors, and consider outsourcing where it is efficient and effective to do so;
- Responding positively to the findings and recommendations of external auditors and statutory inspectors and putting in place arrangements for the implementation of agreed actions;
- Comparing information about our services with services provided by similar organisations and assessing why levels of efficiency, effectiveness and quality are different elsewhere.

4. **MONITORING AND REVIEW**

The Council has Committees that are responsible for monitoring and reviewing the Council's Corporate Governance arrangements. These Committees and their functions are set out below. In addition, the Council has an Independent Remuneration Panel to advise and make recommendations to the Council on the scheme of allowances.

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

- Approving the Council's Accounts;
- External audit;
- Policies and practices that ensure compliance with statutory and other guidance;
- Internal audit.

The Committee also has responsibility for the following roles and functions:

- (i) Promoting and maintaining high standards of conduct by Elected Members and co-opted members of the Authority;
- (ii) Assisting the Elected Members and, co-opted members to observe the Members' Code of Conduct;
- (iii) Advising and offering guidance to the Council on the adoption or revision of the Members' Code of Conduct;
- (iv) Granting dispensations (unless otherwise delegated to the Council's Chief Solicitor, acting as Monitoring Officer) to Elected Members and, co-opted members from requirements relating to prejudicial or pecuniary interests set out in the Members' Code of Conduct;
- (v) Dealing with any reports from Monitoring Officer on any matter which is referred for investigation under 'arrangements' to deal with complaints under the Localism Act, 2011.
- (vi) The exercise of (i) to (v) above in relation to the Parish Councils wholly or mainly in its area and the members of those parish councils.

Through this Committee, the Council will ensure that these arrangements are kept under continual review by:-

- The work of internal audit;
- Reports prepared by Officers with responsibility for aspects of this Code;
- External Audit opinion;
- Other review agencies and Inspectorates;
- Opinion from the Council's statutory Officers.

The Audit and Governance Committee will also have responsibility for the discharge of all statutory scrutiny functions relating to health and wellbeing under the Health and Social Care Act 2012 and Crime and Disorder for the purposes of the Police and Justices Act 2006.

The Monitoring Officer is responsible for the review and monitoring of the Council's Constitution, and able to make recommendations for changes, where reviewing the Constitution to Full Council (Article 15 of the Council's Constitution refers).

- 4.2 The Finance and Policy Committee has responsibility for the financial and other resources of the Authority including the formulation, development and implementation of the Authority's plans and strategies under the Budget and Policy Framework. The role and remit of this Committee is referenced within Article 7 (Policy Committees) and Part 3 (Responsibilities for Functions) of the Council's Constitution.

All Policy Committee Chairs will be represented on Finance and Policy Committee.

5. THE CORPORATE GOVERNANCE STATEMENT

- 5.1 Each year the Council will publish an Annual Governance Statement. This will provide an overall assessment of the Council's Corporate Governance arrangements and an appraisal of the key controls in place to manage the Council's principal governance risks. The Statement will also provide details of where improvements need to be made (4).
- 5.2 The Annual Governance Statement will be published as part of the Council's Annual Statement of Accounts and will be audited by our External Auditors.

(4) Incorporating the Council's duties to publish an Annual Governance Statement in accordance with the Accounts and Audit Regulations 2015 (Amended).

6. CONTACT

The underlying purpose of this "Code of Governance" is ostensibly to provide a statement of the Borough Council's commitment to proper and effective governance and to reference a variety of documents relating to governance within the Borough Council the same being documented below and available for public access at www.hartlepool.gov.uk.

For any further information on the Borough Council's good governance arrangements, contact should be initiated with the following Council Officers;

Peter Devlin,
Chief Solicitor and Monitoring Officer of Hartlepool Borough Council,
Civic Centre, Hartlepool TS24 8AY

Chris Little,
Director of Finance and Policy, Hartlepool Borough Council, Civic
Centre, Hartlepool TS24 8AY

KEY DOCUMENTS

A - The Constitution

- Part 1 – Summary and Explanation
- Part 2 – Articles of the Constitution
- Part 3 – Responsibilities for Functions
- Part 4 – Rules of Procedure
- Part 5 – Codes and Protocols
- Part 6 – Members' Allowances Scheme
- Part 7 – Appointment to Outside Organisations and other bodies
- Part 8 – Management Structure

B - Essential Documents supporting the Council's Constitution

- Budget and Policy framework, plans and strategies (*including published minutes of meetings*)
- Code of Conduct for Members
- Code of Conduct for Employees
- Whistleblowing Policy and Procedure Document
- Planning Code of Practice
- Anti Money Laundering Policy
- Code of Corporate Governance
- Forward Plan of Key Decisions

C - Key Policy Documents

- Council Plan
- Sustainable Community Strategy
- Statement of Community Involvement

D - Key Budget and Risk Management Documents

- Council's Annual Budget
- Medium Term Financial Strategy
- Annual Statement of Accounts
- External Auditor's Annual Report
- Council's Risk Management Framework
- Council's Anti-Fraud and Corruption Policy
- Annual Governance Statement

E - Key Member, Officer Decision Making

- Responsibility for Functions (Part 3 of the Council's Constitution)

F - Miscellaneous Documents

- Corporate Complaints Procedures
- Members Training and Development Programme
- Register of Members' Interests

- Members' Gifts and Hospitality Register
- Officers' Gifts and Hospitality Register
- Hartlepool Borough Council Performance Reports

NORTH EAST JOINT HEALTH SCRUTINY COMMITTEE

MINUTES

2 June 2016

The meeting commenced at 10.00 am in the Civic Centre, Hartlepool

Present:

Hartlepool Borough Council
Councillor Ray Martin-Wells

Durham County Council:
Councillor Robinson

Northumberland County Council:
Councillors Wallace and Nisbet

Redcar and Cleveland:
Councillor Kay

Stockton Borough Council:
Councillors Javed and Hall

Sunderland City Council:
Councillor Dixon

In accordance with Council Procedure Rule 5.2 (ii), Councillor Mendelson was in attendance as substitute for Councillor Taylor (Newcastle City Council)

Also Present: Liz Rogerson, Mary Hardie and Peter Dixon, NHS England
Julie Gillon and Jane Barker, North Tees and Hartlepool NHS
Foundation Trust

Officers: Stephen Gwilym, Durham County Council
Peter Mennear, Stockton Borough Council
Karen Christon, Newcastle City Council
Nigel Cummings, Sunderland City Council
Paul Allen, Northumberland County Council
Elise Pout, Middlesbrough Borough Council
Alison Pearson, Redcar and Cleveland Borough Council
Joan Stevens, Scrutiny Manager (HBC)
Denise Wimpenny, Principal Democratic Services (HBC)

1. Welcome/Appointment of Chair and Vice-Chair 2016/17

The Scrutiny Manager, (HBC) welcomed all attendees and sought nominations for the appointment of Chair and Vice-Chair. It was agreed that Councillor Ray Martin-Wells be appointed as Chair of this Committee and Councillor Robinson be appointed as Vice-Chair.

Councillor Martin-Wells took the Chair

2. Apologies for Absence

Apologies for absence were submitted on behalf of Councillor Green, Gateshead Borough Council, Councillor Turner, Newcastle City Council and Councillor Dryden, Middlesbrough Borough Council.

3. Declarations of Interest

Councillor Mendelson, Newcastle City Council declared a personal interest as an employee of the Foundation Trust.

4. Minutes of the Meeting held on 6 January 2016

Confirmed.

5. Terms of Reference and Protocols for the North East Joint Health Scrutiny Committee *(Chair of the North East Joint Health Scrutiny Committee)*

The Committee's agreement to re-confirmation of the terms of reference and protocols for the North East Joint Health Scrutiny Committee was sought.

Recommendation

That the Terms of Reference and Protocols for this Committee be re-affirmed.

6. Regional Back Pain Programme – North of England Commissioning Support Unit (NECS) *(Scrutiny Manager)*

The Scrutiny Manager (HBC) expressed apologies on behalf of the North of England Commissioning Support Unit that a representative was unable to attend today's meeting. In terms of taking this issue forward, Members consideration of the report was sought and the Scrutiny Manager highlighted that any questions in relation to the report content would be taken forward and reported back.

Recommendation

The contents of the report was noted.

7. Neonatal Intensive Care Transport/Update on Congenital Heart Disease/Vascular Surgery (NHS England North)

The Scrutiny Manager welcomed representatives from NHS England North who had been invited to the meeting to provide an update on the Neonatal Intensive Care Transport, Congenital Heart Disease and Vascular Surgery.

The representatives from NHS England North provided a detailed and comprehensive presentation which focussed on the following:-

Neonatal Configuration

- Recommendations included a reduction of intensive care units from 4 to 3
- Decisions from Overview and Scrutiny Committee meeting in December 2015
- Consultation being taken forward as part of the Better Health Programme
- Tees Clinicians recommended and Network endorsed North Tees should care for babies 27plus weeks (subject to agreement between Tees Trusts)

Neonatal Transport

- NHS England had agreed to fund a Neonatal Transport Service
- Timescales for implementation of the Neonatal Transport Service – jobs advertised 1st week in June – appointments August
- Service to be phased in from September 2016

Congenital Heart Disease

- 9 in 1,000 babies born in UK are affected
- July 2013 – new CHD Review agreed
- Trust submissions assessed by Local Panel and reported to National Panel
- Final national decision not expected before June 2016

Vascular Surgery

- Case for Change in 2014 recommended the most appropriate model for the North East is to have a maximum of 3 centres
- Third centre would be either Sunderland or Durham – both requested

- an independent review
- Two vascular surgeons recommended that the third unit should be Sunderland
- NHS England have received the Independent Review's recommendation but have not made a decision
- When NHS England is in a position to make a decision the OSC will be consulted to decide if a consultation is required
- Better Health included where relevant

A query was raised as to how widely the job vacancies would be advertised and for what period. A view was expressed that the advert should be as widespread as possible and for a reasonable period. The representative agreed to clarify the timescales with the Trust and report back following the meeting.

In relation to the neonatal transport proposals, concerns were raised regarding the impact of centralising services given the current pressures faced by the Ambulance Service in terms of response times. It was noted that service users could be travelling from as far north as Berwick and as far south as Northallerton. Given these challenges, the Committee requested that the RVI provide a protocol/implementation plan to enable the Committee to monitor progress of implementation in 12 months time.

Disappointment was expressed in relation to the recommendation that the third vascular centre should be Sunderland given that Sunderland's figures in terms of activity were lower than Durham. It was suggested that the clinicians from the units in Sunderland and Durham be invited to a future meeting of the Committee to provide a local/expert perspective on the proposals. The representatives responded to a number of issues raised by Members in relation to the information provided in the report.

During further discussions in relation to the vascular surgery proposals, the Committee viewed the proposed changes to the service as a substantial variation and, as such, required that it be consulted fully in accordance with the requirements of the Health and Social Care Act. The Committee requested that a further report be brought back to Committee at a time when data had been fully validated outlining:-

- Details of the outcome of the Independent Review (inc remit/terms of reference of the group, etc)
- Evidence to support the proposals (including validated data)
- Details of the proposed consultation process/timetable as required for a substantial variation of service

Recommendation

- (i) That the contents of the presentation and comments of Members be noted.
- (ii) That the proposals in relation to Congenital Heart Disease be noted.
- (iii) That clarification on the timescales in relation to the job vacancies be

- provided following the meeting.
- (iv) In relation to Neonatal Services, that the RVI provide a protocol/implementation plan to enable the Committee to monitor progress of its implementation in 12 months time.
 - (v) In relation to the Vascular Surgery proposals, that a further report be brought back to the Committee at a time when data had been fully validated outlining:-
 - Details of the outcome of the Independent Review (inc remit/terms of reference of the group, etc)
 - Evidence to support the proposals (including validated data)
 - Details of the proposed consultation process/timetable as required for a substantial variation of service
 - (iv) That Clinicians from the Vascular Surgery units in Sunderland and Durham be invited to provide a local/expert perspective on the proposals.

8. Any other Business which the Chairman considers Urgent

The Chairman ruled that the following item of business should be considered by the Committee as a matter of urgency in accordance with the provisions of Section 100(B) (4)(b) of the Local Government Act 1972 in order that the matter could be dealt with without delay.

9. Any Other Business – Proposed Better Health Programme Joint Overview and Scrutiny Committee (Principal Overview and Officer, Durham County Council)

The Principal Overview and Scrutiny Officer from Durham County Council reported that the Better Health Programme, formerly the Acute Quality Legacy Project and Securing Quality in Health Services was a sub-regional project across County Durham, Darlington and Tees Valley which sought to examine how the local NHS could provide the best possible services over the next five years and beyond for that locality. The Better Health Programme was about meeting patient needs now and in the future to appropriate clinical standards across a number of disciplines including accident and emergency, critical care, paediatrics, maternity and neonatology and interventional radiology. Commissioners had stated their desire to work with stakeholder organisations and public representatives during the programme and an indicative timeline for 2016 has been shared with stakeholders indicating public consultation to commence around November 2016.

Proposals had been developed to establish a Joint Health Scrutiny Committee under the provision of the Health and Social Care Act 2012 involving all local authorities affected by the Better Health Programme and any associated service review proposals. Six local authorities had therefore met to consider establishment of a Joint Health Scrutiny Committee under the requirements of the Act nominating 3 representatives and each drafting

terms of reference and protocols for that Committee. Following liaison with neighbouring local authorities in the region to inform them of the Better Health Programme Overview and Scrutiny Committee a request had been received from North Yorkshire County Council formally requesting that they be considered for membership. To date, nominations had been received from five of the six local authorities. A provisional date of Thursday 7 July at 2.00 pm had been agreed for the first meeting which Hartlepool had agreed to host. Subject to the agreement of this Committee, Councillor Robinson from Durham County Council had agreed to Chair the meeting.

In response to a query from a Member, the Principal Scrutiny Officer (DCC), outlined the legal requirements of the 2012 Health and Social Care Act to establish a Joint Health Overview and Scrutiny Committee to deal with issues of this type.

A Member sought clarification on the role and purpose of the Joint Committee. Members were advised that the Committee would consider the key principles in terms of why the Better Health Programme had been set up, the risks associated with non-compliance with the relevant standards and the impact for local authorities covered by the programme. Initial meetings would focus upon fact finding and would also consider a series of proposals that required statutory consultation. It was highlighted that the need to establish a joint committee would not preclude any individual health scrutiny committees from considering this issue independently.

Decision

That the information given be noted.

10. Date and Time of Next Meeting

The Chair reported that the next meetings would be held on Thursday 27 October 2016 at 10.00 am and Thursday 2 March 2017 at 10.00 am at the Civic Centre, Hartlepool

The meeting closed at 10.50 am.

CHAIR

Amendment to the minutes when submitted to the meeting on 27 October 2016 for confirmation:

Councillor Taylor (Newcastle City Council) was in attendance, not Councillor Mendelson and Councillor Taylor declared a personal interest as an employee of the Foundation Trust not Councillor Mendelson.

Any Other Business – Audit and Governance Committee – 8 December 2016**Delayed Discharge of Care**

Dear Chair

Further to the referral from the Health and Wellbeing Board on the matter of changes to the reporting arrangements for Delayed Transfers of Care (DToC) this e mail provides an update to Audit of Governance of the action taken to resolve the concerns raised on this matter.

A letter was received from North Tees and Hartlepool NHE Foundation Trust on 22 August outlining the intention of the Trust to review the way in which monthly delayed transfers of care are reported in the situation reports with effect from 01 September 2016. The interpretation of the Guidance by the Trust was challenged in a joint letter from Hartlepool and Stockton on Tees Directors of Adults Services and an urgent meeting was requested to discuss the decision and areas of dispute.

In November 2016 two meetings were held with the Trust to seek resolution to the areas of dispute and as a consequence of the meetings, the following action has been agreed:

- In context of current capacity pressures in the care sector at present, it is likely that there will be some delays attributable to social care, these will be reviewed on a monthly basis to ensure accuracy of reporting.
- Any delays relating to people awaiting nursing home placements should be attributable to the NHS, as the CCG is the responsible commissioner.
- A piece of work to be undertaken to agree what constitutes a 'reasonable alternative' for people linked to the Trust's Patient Choice Policy. Until additional capacity is available in Hartlepool it is reasonable and acceptable to promote out of area placements, within a reasonable travelling distance, as an alternative to someone remaining in an acute hospital bed when they are medically fit for discharge. Work has commenced on preparing a set of principles to support this approach.
- The September return submitted by the Trust is to be revised and resubmitted to NHS England on the basis of the criteria agreed above.
- NTHFT will send all future returns to HBC for sign off prior to submission to NHS England on basis of criteria agreed above.

Based on the implementation of the agreed actions above, this will satisfactorily resolves the initial concerns raised by the Health and Wellbeing Board on this matter.

Recommendation

- 1) That the update be noted and accepted as a satisfactory outcome in relation to the referral from the Health and Wellbeing Board.
- 2) That the outcome of the referral be reported back to the Health and Wellbeing Board at its January 2017 meeting.