

# **AUDIT AND GOVERNANCE COMMITTEE**

## **AGENDA**



**Thursday 13 December 2018**

**at 10.00 am**

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

**MEMBERS:** AUDIT AND GOVERNANCE COMMITTEE

Councillors Belcher, Cook, Hall, Hamilton, Lindridge, Loynes and Tennant.

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

Parish Council Representatives: Parish Councillor John Littlefair (Hart) and Parish Councillor Don Cameron (Greatham).

Local Police Representative: Superintendent Bev Gill.

**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 22 November 2018. (To Follow)

**4. AUDIT ITEMS**

- 4.1 Mazars Report - Annual Audit Letter - *Assistant Director Finance and Customer Services*
- 4.2 Mazars Report- Audit Progress Report – *Assistant Director Finance and Customer Services*
- 4.3 Internal Audit Plan 2018/19 Update – *Head of Audit and Governance*
- 4.4 Treasury Management Strategy – *Director of Finance and Policy*

**5. STANDARDS ITEMS**

None.



## **6. STATUTORY SCRUTINY ITEMS**

- 6.1 Safer Hartlepool Partnership Performance - *Director of Regeneration and Neighbourhoods*
- 6.2 Preventative Mental Health (Children and Young People's Services) – *Statutory Scrutiny Officer (to follow)*
  - (i) Evidence from service providers:
    - Hartlepool Borough Council
    - Hartlepool and Stockton NHS Clinical Commissioning Group
    - North Tees and Hartlepool NHS Foundation Trust
    - Tees Esk and Wear Valley Foundation Trust
    - Views from providers / users

## **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**

- 10.1 To receive the minutes of the meeting held on 3 August 2018.

## **11. REGIONAL HEALTH SCRUTINY UPDATE**

No items.

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

For information: -

Date and time of forthcoming meetings –

Thursday 17 January 2019 at 10.00 am  
Thursday 14 February 2019 at 10.00 am  
Thursday 14 March 2019 at 10.00 am  
Thursday 18 April 2019 at 10.00 am



# AUDIT AND GOVERNANCE COMMITTEE

13 December 2018



**Report of:** Assistant Director Finance and Customer Services

**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 2017/18 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 20.11.18 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 There is a risk that if 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, this may lead 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 John Morton  
Assistant Director Finance and Customer Services  
Civic Centre  
Victoria Road  
Hartlepool  
TS24 8AY  
Tel: 01429 523003  
Email: John.Morton@Hartlepool.gov.uk

# Annual Audit Letter

Hartlepool Borough Council  
Year ending 31 March 2018





## CONTENTS

1. Executive summary
2. Audit of the financial statements
3. Value for Money conclusion
4. Other reporting responsibilities
5. Our fees
6. Forward look

Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' 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.

# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for Hartlepool Borough Council (the Council) for the year ended 31 March 2018. Although this letter is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

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

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 25 July 2018 included our opinion that the financial statements:</p> <ul style="list-style-type: none"> <li>gave a true and fair view of the Council's financial position as at 31 March 2018 and of its expenditure and income for the year then ended; and</li> <li>had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18</li> </ul>
Other information published alongside the audited financial statements	Our auditor's report issued on 25 July 2018 included our opinion that the other information in the Statement of Accounts was consistent with the audited financial statements.
Value for Money conclusion	Our auditor's report concluded that we were satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.
Reporting to the group auditor	In line with group audit instructions issued by the NAO, on 30 July 2018 we reported to the group auditor in line with the requirements applicable to the Council's WGA return.
Statutory reporting	Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Council.

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2018 and of its financial performance for the year then ended.

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

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

### Our approach to materiality

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

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

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2018:

Financial statement materiality	Our financial statement materiality is based on 2% of gross revenue expenditure.	£5,283,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£158,000
Specific materiality	We have applied a lower level of materiality to the following areas of the accounts: - Termination benefits - Senior officers' remuneration - Members' allowances	£100,000 £100,000 £6,000



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

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

Identified significant risk	Our response	Our findings and conclusions
<b>Management override of controls</b> In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk through performing audit work over: <ul style="list-style-type: none"> <li>• accounting estimates impacting on amounts included in the financial statements;</li> <li>• consideration of identified significant transactions outside the normal course of business; and</li> <li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>	Our work provided the assurance we sought and did not highlight any material issues to bring to the Council's attention. We found no indication of management override of controls
<b>Revenue recognition – fees and charges</b> In accordance with ISA 240 we presume there is a risk of fraud in respect of the recognition of revenue because of the potential for inappropriate recording of transactions in the wrong period. ISA 240 allows the presumption to be rebutted but, given the Council's range of revenue sources, we have concluded that there are insufficient grounds for rebuttal in 2017/18. We have identified income from fees and charges as the key areas of audit testing. This does not imply that we suspect actual or intended manipulation but that we continue to deliver our audit work with appropriate professional scepticism.	We evaluated the design and implementation of controls to mitigate the risk of income being recognised in the wrong period. In addition, we undertook a range of substantive procedures including testing receipts in March, April and May 2018 to ensure they had been recognised in the right year, testing material year end receivables, testing adjustment journals and obtaining direct confirmation of year-end bank balances and testing the reconciliations to the ledger.	Our work provided the assurance we sought and did not highlight any material issues to bring to the Council's attention. We did not find any evidence of revenue being recognised in the wrong year.

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
<b>Property, plant and equipment (PPE) revaluation</b> The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE. Although the Council employs an internal valuation expert to provide information on valuations, there remains a high degree of estimation uncertainty associated with the revaluation of PPE due to the significant judgements and number of variables involved in providing revaluations. We have therefore identified the revaluation of PPE to be an area of risk.	We considered the Council's arrangements for ensuring that PPE values are reasonable and engaged our own expert to provide data to enable us to assess the reasonableness of the valuations provided by the Council's valuer. We also assessed the competence, skills and experience of the valuer. Where necessary we performed further audit procedures on individual assets to ensure that the basis and level of revaluation was appropriate.	Our work provided the assurance we sought and did not highlight any material issues to bring to the Council's attention. We did not find any evidence of PPE being materially misstated.
<b>Defined benefit liability valuation</b> The financial statements contain material pension entries in respect of the retirement benefits. The calculation of these pension figures, both assets and liabilities, can be subject to significant volatility and includes estimates based upon a complex interaction of actuarial assumptions. This results in an increased risk of material misstatement.	We obtained explanations for significant changes to the pension estimates. In addition to our standard programme of work in this area, we evaluated the management controls you have in place to assess the reasonableness of the figures provided by the Actuary and considered the reasonableness of the Actuary's output, referring to an expert's report on all actuaries nationally which is commissioned annually by the National Audit Office.	Our work provided the assurance we sought and did not highlight any material issues to bring to the Council's attention. We found no indication of material estimation error in respect of pensions.

### Internal control recommendations

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

### 3. VALUE FOR MONEY CONCLUSION

#### Value for Money conclusion

Unqualified

#### Our approach to Value for Money

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

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

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

Our auditor's report, issued to the Council on 25 July 2018, stated that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31<sup>st</sup> March 2018.

Sub-criteria	Commentary	Matters to report
Informed decision making	There are regular and appropriate reports to members on financial and operational performance. Other relevant information is updated regularly and is available on the Council's website, including the Council Plan, Constitution and medium term financial strategy.	None
Sustainable resource deployment	We identified a significant risk and undertook further work to address this risk as described below. We were satisfied with the arrangements in place.	None
Working with partners and other third parties	Various policies and framework for partnership working are available on the external website. All service reviews include consideration of partnership working. The Council is developing social care services jointly with the CCG, leading on some children's services locally and regionally, and with the other local authorities as part of the Tees Valley Combined Authority.	None

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

### 3. VALUE FOR MONEY CONCLUSION

#### Significant Value for Money risks

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

Risk	Work undertaken	Conclusion
<b>Financial sustainability</b> Our audit work in previous years has concluded that the Council has arrangements in place for medium term financial planning. The Council continues to face financial pressure in the coming years and the Council has recently updated its medium term financial strategy (MTFS). We need to ensure our knowledge of the Council's MTFS arrangements and its monitoring of the planned delivery of savings, remains up to date in order to ensure we give the correct VFM conclusion.	Building on our work in previous years, we reviewed the Council's updated 2018 MTFS to ensure it reflects the latest funding position from central government and reviewed and updated our knowledge of the arrangements the Council has in place to monitor progress against budget in-year and how savings plans and income projections are developed to underpin the MTFS going forward.	The Council is well aware of the risk in relation to the future funding gap and the need to transform service provision and is taking action aimed at addressing future pressures on spending, budgets and services. There are several uncertainties going forward which will impact on the MTFS including pressures within looked after children and the outcome of the ongoing fair funding review.

## 4. OTHER REPORTING RESPONSIBILITIES

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

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

### Matters which we report by exception

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

- issue a report in the public interest
- make a referral to the Secretary of State where we believe that a decision has led to, or would lead to, unlawful expenditure, or an action has been, or would be unlawful and likely to cause a loss or deficiency; and
- make written recommendations to the Council which must be responded to publically.

We have not exercised any of these statutory reporting powers.

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

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO on 30 July 2018.

### Other information published alongside the financial statements

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

## 5. OUR FEES

### Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to Audit and Governance Committee in April 2018.

Having completed our work for the 2017/18 financial year, we can confirm that our final fees are as follows:

Area of work	2017/18 proposed fee	2017/18 final fee
Delivery of audit work under the NAO Code of Audit Practice	£108,936	£108,936
Certification of Housing Benefit Subsidy Claim	£10,297	£10,297*
Other non-Code work	N/A	N/A

\* Subject to completion of detailed testing.

### Fees for other work

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

## 6. FORWARD LOOK

### Financial outlook

The Council is well aware of the financial challenges facing it in the future. The MTFS has been refreshed and updated for known pressures, events and assumptions as part of the 2018/19 budget setting process. The strategy covers 2018/19 and 2019/20 in detail and a financial outlook for 2020/21.

The Council has set a balanced budget for 2018/19 which includes using £2.448 million of the budget support fund as part of a planned use of reserves strategy designed to provide a longer lead time to reduce cost pressures or identify additional sources of funding.

For 2019/20 the Council's MTFS shows unidentified cuts of £1.363 million but also states that the funding gap may be significantly higher at £6.013 million if the cost pressures in looked after children services persist and if the expected higher pay rises for staff are not reflected in additional grant funding.

Looking forward to 2020/21, the Council is facing major uncertainties in relation to business rates retention and the fair funding review.

### Operational challenges

As summarised in the Council's annual governance statement, the main challenges facing the Council are:

- delivery of Council Plan, revised performance management framework and MTFS. The sustainability of services, level of performance and the continuing need to achieve housing growth;
- business continuity arrangements;
- ensuring adequate management arrangements for non-core grant funding;
- General Data Protection Regulation (GDPR); and
- delivery of regeneration and the capital programme on time and within budget in line with key Council objectives.

Against a backdrop of continued reductions in funding and future uncertainty, the Council will require organisational capacity, continued good governance and strong risk and project management arrangements.

### How we will work with the Council

We will focus our 2018/19 audit on the risks that these challenges present to the Council's financial statements and its ability to maintain proper arrangements for securing value for money. We will also share with the Council 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.

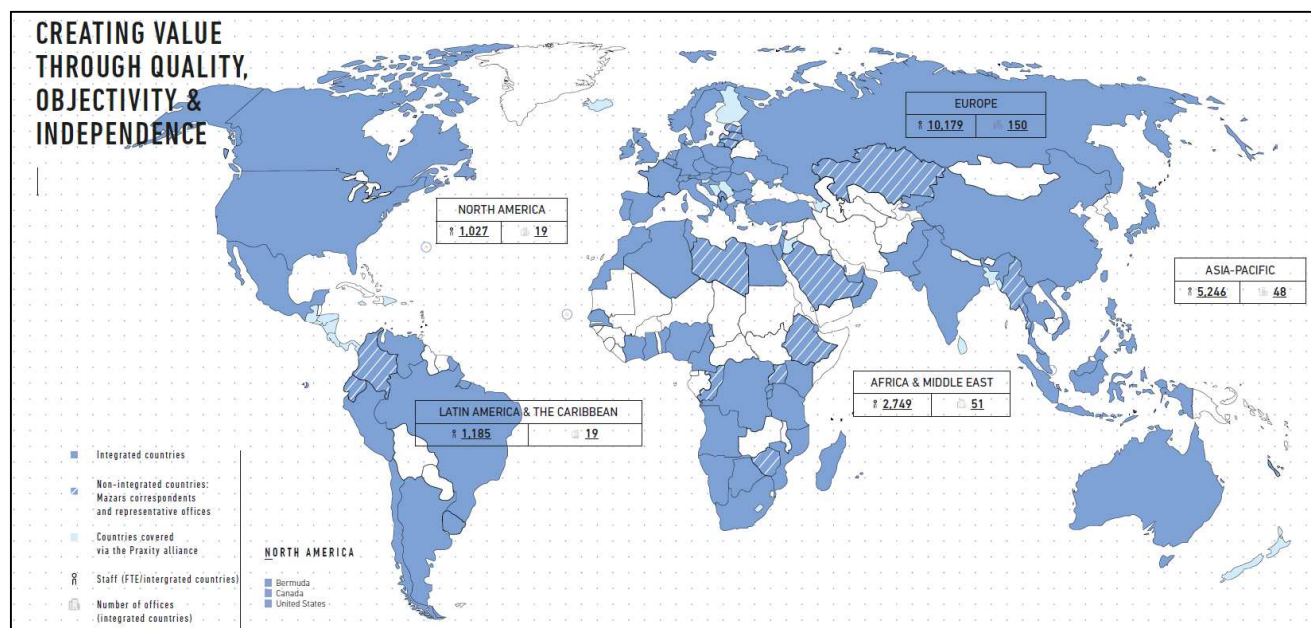


# MAZARS AT A GLANCE

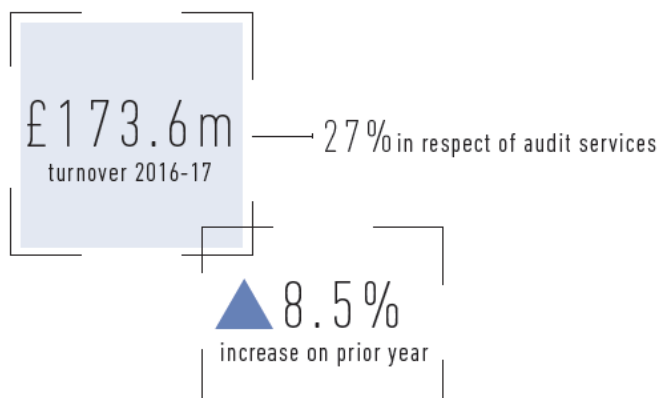
## Mazars LLP

- Fee income €1.5 billion
- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand

## Mazars Internationally



## Mazars in the UK





## CONTACT

**Cameron Waddell**  
**Partner**

**Phone:0191 383 6300**

**Mobile:0781 375 2053**

**Email: [cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)**

**Cath Andrew**  
**Senior Manager**

**Phone:0191 383 6300**

**Mobile:0781 587 8116**

**Email: [cath.andrew@mazars.co.uk](mailto:cath.andrew@mazars.co.uk)**

# AUDIT AND GOVERNANCE COMMITTEE

13 December 2018



**Report of:** Assistant Director Finance and Customer Services

**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 There is a risk that if 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, this could lead 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 John Morton  
Assistant Director Finance and Customer Services  
Civic Centre  
Victoria Road  
Hartlepool  
TS24 8AY

Tel: 01429 523003  
Email: John.Morton@Hartlepool.gov.uk



# Audit Progress Report

## Hartlepool Borough Council

November 2018





## CONTENTS

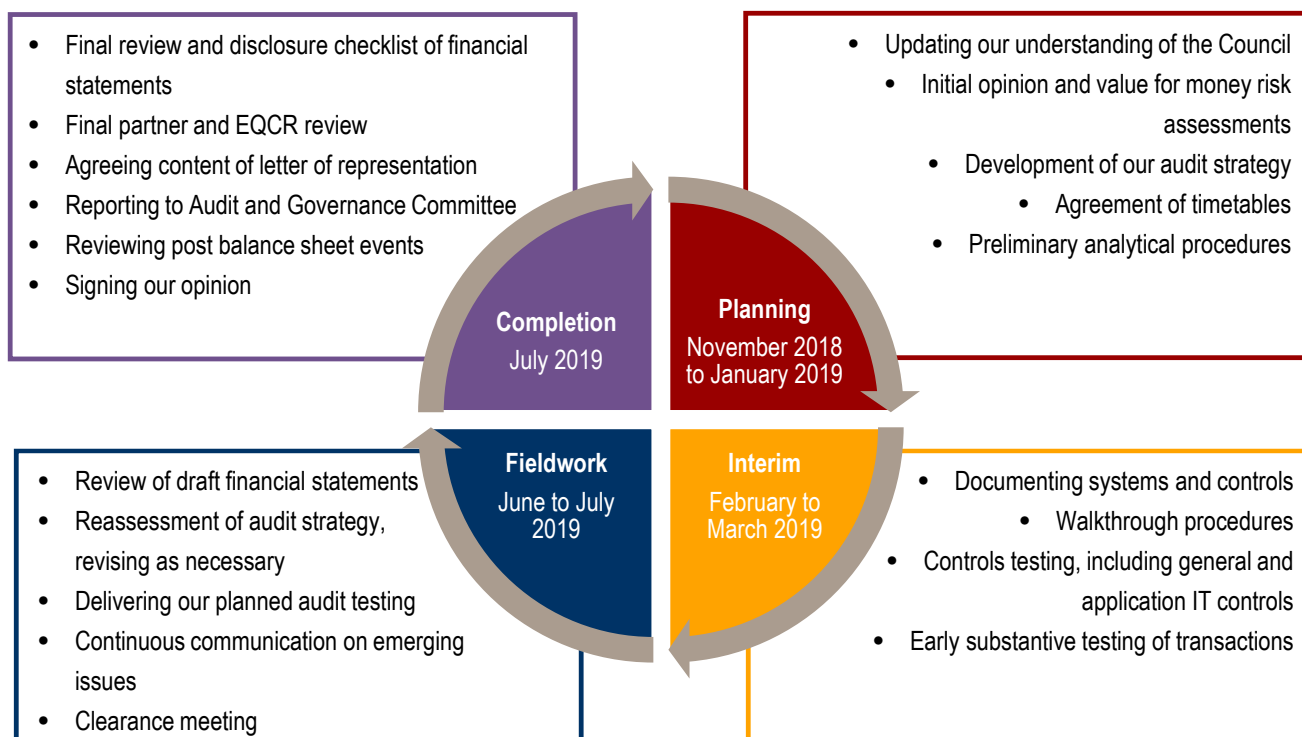
1. Audit progress
2. National publications
3. Contact details

This document is to be regarded as confidential to Hartlepool Borough Council. It has been prepared for the sole use of the Audit and Governance Committee. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

# 1. AUDIT PROGRESS

## Audit progress

Our planned timetable of work is set out in the diagram below; as in previous years, upon completion of our initial planning and risk assessment, we bring our Audit Strategy Memorandum to the Audit and Governance Committee for consideration. Our risk assessment is however is an on-going process throughout the year.



## Emergence of a significant value for money risk from early planning work

From our early discussions with officers and review of ongoing reports to members, we have identified a significant value for money risk that we would like to highlight to members.

In our Annual Audit Letter for the 2017/18 audit we identified that the Council had set a balanced budget for 2018/19 which included using £2.448 million of the budget support fund as part of a planned use of reserves strategy designed to provide a longer lead time to reduce cost pressures or identify additional sources of funding. We also highlighted the mounting financial pressures on the 2019/20 budget.

We noted in the reporting to the Finance and Policy Committee on 3 September 2018 that:

- There is a forecast net overspend on the 2018/19 budget (after mitigating actions being taken in year) of £429k (this figure has increased to £549k in the report to the Committee on 26 November 2018), which if not addressed from the measures reported to Committee will add to the immediate pressures on resources and will be a further draw on diminishing reserves;
- We understand that the budget proposals to be referred from the Finance and Policy Committee to Council in December will propose that two areas of planned savings for 2019/20, totalling £456k, should be reversed. We note that alternative funding has been secured for one of these savings, although there is still a £296k net impact on the budget deficit; and
- The predicted budget deficit for 2019/20 was estimated at £6m.

# 1. AUDIT PROGRESS (CONTINUED)

## Emergence of a significant value for money risk from early planning work (continued)

The forecast budget deficit of £6m presents a significant financial challenge to the Council, as it comes after a prolonged period of austerity and year-on-year budget cuts, as central government funding has been reduced.

Even this scenario is after assuming that the Council will increase the council tax by the maximum allowable without triggering a referendum of 3.9%, including a 1% Social Care precept. We understand that the Council will consider the level of increase in council tax to this level on 20 December 2018, and in the circumstances we can see that there is little rational alternative than to implement the proposed increase.

We understand that the Council is in the process of identifying savings, but that there are no easy choices as any measures that might impact minimally on front line services have already been taken. The savings identified to date for implementation in 2019/20 fall far short of the budget gap. Work is ongoing to identify the areas where future savings should be made, and we understand that this will mean difficult decisions need to be made, including cutting services. It is important, faced with such difficult choices, that an assessment is made of the impact of these cuts such that the options are ranked in terms of the impact on communities. It is unlikely that any of the choices will be easy, so this ranking will be in terms of 'least worst' through to 'worst worst'.

It is clear that the Council will face some of the most difficult decisions it has ever faced in balancing the 2019/20 budget. Although the Council does have some reserves to minimise the immediate impact, in accordance with the Council's own strategy, these are a temporary or transitional cushion while the savings needed are identified and delivered. In addition, the reserves available to support the budget are reducing and the available balances will soon reach the minimum needed to deal with unforeseen circumstances and risk, and will not be available to support the revenue budget in the way that they have in recent years.

The key message from those councils that have already faced a financial crisis, such as Northamptonshire and others, is the importance of taking early action to secure financial sustainability before the position becomes unmanageable.

The position beyond 2019/20 is very uncertain as so much depends on the outcome of the fair funding review and the measures that will be taken in relation to the future operation of the business rates system. However, it seems unlikely that the overall financial position for the Council will improve sufficiently to allow it to defer any of the difficult decisions that are now needed.

In terms of the significant risk to our value for money conclusion, the measures the Council now takes in securing its financial sustainability through the 2019/20 budget process and beyond, will be a key area of audit focus in our 2018/19 value for money audit work.



## 2. NATIONAL PUBLICATIONS AND OTHER UPDATES

	Publication
1	Inaugural meeting of the Local Audit Quality Forum developed by Public Sector Audit Appointments Ltd, April 2018
2	Delivering Good Governance in Local Government: Annual Governance Statements, CIPFA, April 2018
3	Financial sustainability of local authorities 2018
4	Transformation guidance for audit committees, National Audit Office, May 2018
5	Regulatory Compliance and Quality Review Programme: Annual Report 2018, PSAA, July 2018
6	Treasury Management in Public Services: Guidance Notes for Local Authorities, CIPFA, August 2018
7	Code of Audit Practice
8	Roles and responsibilities of the NAO and local auditors

### 1. Inaugural meeting of the Local Audit Quality Forum developed by Public Sector Audit Appointments Ltd, April 2018

Over 150 Chairs of Audit Committees and Directors of Finance attended the inaugural event to hear from speakers and panel members with a wealth of experience of public audit from across the UK. The programme included:

- Sir Amyas Morse, Comptroller and Auditor General of the National Audit Office, on the importance of public audit, and the NAO's role and responsibilities in relation to local audit
- Caroline Gardner, Auditor General for Scotland and PSAA Board Member, comparing and contrasting different models of public audit
- Rob Whiteman, CIPFA Chief Executive, on their guidance on audit committees and on the annual governance statement
- Jon Hayes, Chief Officer PSAA, outlining the appointing person arrangements
- Gareth Davies, Partner Mazars LLP, on the key issues arising from 2017/18 audits
- Q&A panel of audit committee chairs

The materials from the event are available to download from PSAA's website:

<https://www.psaa.co.uk/local-audit-quality-forum/18-april-2018-inaugural-meeting/>

### 2. Delivering Good Governance in Local Government: Annual Governance Statements, CIPFA, April 2018

CIPFA reviewed a selection of Annual Governance Statements for 2016/17 in order to advise local government on good practice. CIPFA found that some authorities continued to reference obsolete principles and guidance. This indicates that these authorities have not kept up to date with governance requirements and are failing to challenge the adequacy of their arrangements. One of the new requirements of the 2016 Framework was to improve accountability to the public and stakeholders by explaining how the authority has resolved any governance issues raised in the previous year's statement. A number of authorities failed to include this element in their statements.

<http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/delivering-good-governance-in-local-government,-c,-annual-governance-statements>



## 2. NATIONAL PUBLICATIONS CONTINUED

### 3. Financial sustainability of local authorities 2018, NAO, March 2018

Since 2010, successive governments have reduced funding for local government in England as part of their efforts to reduce the fiscal deficit. Changes in funding arrangements and new pressures on demand have created both new opportunities and further pressures for the sector. Local authorities deliver a range of services. The government sets statutory duties for them to provide services, ranging from adult social care to waste collection. Local authorities also provide discretionally services according to local priorities. The Ministry of Housing, Communities & Local Government (the Department) views authorities' ability to deliver their statutory services as the defining test of their financial sustainability.

The Department has overall responsibility in central government for local authorities' funding and dictates the overall levels and distribution of funding provided to the sector, and local authorities' statutory responsibilities. Responsibility for statutory services delivered by local authorities is spread across government departments.

This report reviews developments in the sector and examines whether the Department, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities. See the link to the report below.

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

### 4. Transformation guidance for audit committees, National Audit Office, May 2018

The NAO has published a short, focused and useful guide for Audit Committees covering the key questions Audit Committees should consider covering in the various phases of any organisation's transformation agenda. NAO summarise the guidance as follows:

- Transformation programmes can be highly complicated and risky. This guidance assists those overseeing them by setting out questions committees should ask during set-up, delivery and live-running phases;
- The government continues to aim to make significant savings and improve services by transforming organisational models and ways of working. For such programmes to achieve their intended benefits they must deliver a step-change in operations and service delivery – and not just, for example, a headcount reduction, or a new online means of accessing existing services;
- Understanding and overseeing transformation programmes is harder than for more traditional programmes for three reasons. Firstly, transformation programmes can be very broad and organisations can be quite vague about intended outcomes. Secondly, they can evolve and change over time. Thirdly, it can be difficult to measure and evidence the real impact and know when a programme has succeeded or when it should close.

This guidance helps audit committees to encourage clarity about what management intends by transformation, how services will change, and the strategy for achieving the objectives. It sets out questions and the evidence and indicators to look out for at three stages:

- **Set-up:** including vision, strategy, governance, architecture and the evolving nature of transformation.
- **Delivery:** covering change and implementation, and service and performance management.
- **Live-running and benefits realisation:** looking at people, process and technology.

Given the central role that data plays in transformation, the guidance also provides questions audit committees can ask about the role and management of data. The NAO guidance is based on our previous work and provides links to other government guidance and NAO resources.

<https://www.nao.org.uk/report/transformation-guidance-for-audit-committees/>

## 2. NATIONAL PUBLICATIONS CONTINUED

### 5. Regulatory Compliance and Quality Review Programme: Annual Report 2018, PSAA, July 2018

Public Sector Audit Appointments Limited (PSAA) monitors the performance of all its audit firms. The audit quality and regulatory compliance monitoring for 2017/18 incorporated a range of measurements and checks comprising:

- a review of each firm's latest published annual transparency reports;
- the results of reviewing a sample of each firm's audit quality monitoring reviews (QMRs) of its financial statements, Value for Money (VFM) conclusions and housing benefit (HB COUNT) work;
- an assessment as to whether they could rely on the results of each firm's systems for quality control and monitoring;
- a review of the Financial Reporting Council's (FRC) published report on the results of its inspection of firm audits in the private sector;
- the results of our inspection of each firm by the FRC's Audit Quality Review team (AQR) as part of our commissioned rolling inspection programme of financial statements and VFM work;
- the results of each firm's compliance with 15 key indicators relating to Terms of Appointment requirements;
- a review of each firm's systems to ensure they comply with our regulatory requirements; and
- a review of each firm's client satisfaction surveys for 2016/17 engagements.
- The report concludes the following in respect of Mazars LLP:  
*"Mazars is meeting our standards for overall audit quality and our regulatory compliance requirements. We calculated the red, amber, green (RAG) indicator for overall audit quality and regulatory compliance using the principles detailed in Appendices 1 and 2. For 2017/18, Mazars' combined audit quality and regulatory compliance rating was green. The satisfaction survey results show that audited bodies are very satisfied with the performance of Mazars as their auditor. Mazars has maintained its performance against the regulatory compliance indicators since last year, with all of the 2017/18 indicators scored as green"* Mazars' overall weighted audit quality score of 2.55 has increased slightly from last year's 2.45."

**Figure 1: 2018 Comparative performance for audit quality and regulatory compliance**

	BDO	EY	Deloitte	PwC	Grant Thornton	KPMG	Mazars
2018	Amber	Amber	n/a	n/a	Amber	Amber	Green
2017	Amber	Amber	n/a	n/a	Amber	Amber	Green
2016	Green	Green	Green	Amber	Amber	Amber	Green

<https://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/>

### 6. Treasury Management in Public Services: Guidance for Local Authorities CIPFA, August 2018

CIPFA have produced sector-specific guidance notes drawing attention to the requirements of statutes and regulations, and to common practices and current issues specific to local authority treasury management.

Treasury management in local government continues to be a highly important activity with English local authorities alone managing £73bn of borrowing and £29bn of investments at 31 March 2016. Recently there has been considerable interest in local authorities' use of Lender Option Borrower Option instruments and increasing levels of commercial investment. The introduction of IFRS 9 Financial Instruments, increasing the range of investments and borrowing reported at fair value, will ensure that local authority treasury management remains in the spotlight for some time to come.

<https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-guidance-notes-2018-edition-online>

1. Audit progress

2. National publications

3. Contact details

## 2. NATIONAL PUBLICATIONS CONTINUED

### 7. Code of Audit Practice, NAO

The Local Audit and Accountability Act 2014 makes the Comptroller and Auditor General responsible for the preparation, publication and maintenance of the Code of Audit Practice. The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act.

The audit of a public sector organisation is wider in scope than that of a private sector body. Special accountabilities attach to the use of public money and the conduct of public business. It is not part of the auditor's responsibilities to question the merits of policy, but the auditor does have wider duties (depending upon the relevant legislation) to scrutinise and report not only upon the truth and fairness of the financial statements but on aspects of public stewardship and the use to which resources have been put. The auditor carries out this work on behalf of the public and in the public interest.

The auditor does not act as a substitute for the audited body's own responsibility for putting in place proper arrangements in support of the proper conduct of public business, and for ensuring that public money is safeguarded, properly accounted for and used with due regard to value for money.

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

### 8. Roles and responsibilities of the NAO and local auditors, NAO

Includes a useful summary of auditor's additional powers as well as setting out the responsibilities of auditors and local authorities. Those responsible for the conduct of public business and for spending public money are required to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging these responsibilities, public bodies must put in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published governance statement.

#### Responsibilities in relation to the financial statements

The audited body is responsible for preparing financial statements that meet relevant statutory, professional and any other applicable requirements. Auditors provide an opinion on whether the audited body's financial statements:

- give a true and fair view of the financial position of the audited body and its expenditure and income for the period in question; and
- have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Auditors plan and perform their audit in compliance with the requirements of the Code and with relevant professional and quality control standards. The auditor's work is risk-based and proportionate and is designed to meet the auditor's statutory responsibilities.

#### Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

It is the responsibility of the audited body to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Local public bodies are required to maintain an effective system of internal control that supports the achievement of their policies, aims and objectives whilst safeguarding and securing value for money from the public funds at their disposal.

Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In carrying out this work, the auditor is not required to satisfy themselves as to whether or not the audited body has actually achieved value for money during the reporting period.

In planning this work, auditors consider and assess the significant risks of giving a wrong conclusion on the audited body's arrangements for securing economy, efficiency and effectiveness.

<https://www.nao.org.uk/code-audit-practice/the-audit-framework-for-local-public-bodies/>

### 3. CONTACT DETAILS

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

[www.mazars.co.uk](http://www.mazars.co.uk)

Gavin Barker  
Director  
0191 383 6300  
[gavin.barker@mazars.co.uk](mailto:gavin.barker@mazars.co.uk)

Cath Andrew  
Senior Manager  
0191 383 6300  
[cath.andrew@mazars.co.uk](mailto:cath.andrew@mazars.co.uk)

**Address:**  
Salvus House,  
Aykley Heads,  
Durham,  
DH1 5TS  
0191 383 6300

1. Audit progress

2. National publications

3. Contact details

# AUDIT AND GOVERNANCE COMMITTEE

13 December 2018



**Report of:** Head of Audit and Governance

**Subject:** INTERNAL AUDIT PLAN 2018/19 UPDATE

---

## 1. PURPOSE OF REPORT

- 1.1 To inform Members of the progress made to date completing the internal audit plan for 2018/19.

## 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. Table 1 of the report detailed below, sets out the school audits that have been completed and the recommendations made. Recommendations to mitigate the risks identified have been agreed and a follow up audit will be carried out to ensure satisfactory implementation.

Table 1

Audit	Objectives	Recommendations	Agreed
St John Vianney Primary School	Ensure school finance and governance arrangements are in line with best practice.	- The Governing Body should develop an Anti-Fraud and Corruption Policy. It may consider adopting the HBC Policy to meet the needs of the school. A copy is provided with this report.	Y
		- A register of business interests including 'nil' returns should be	Y

Audit	Objectives	Recommendations	Agreed
		<p>maintained for all governors and those staff who can influence purchasing decisions. The register should be updated at least annually.</p> <p>- A budget for the Day Care Centre should be established and financial performance reported to Governors on a termly basis to enable effective monitoring and timely control action should the need arise.</p> <p>- Transaction Logs should be used to record purchases and used to check online transactions. The log should be authorised by 2 cheque signatories prior to authorisation online.</p> <p>- Orders should be used for all goods and services with a few limited exceptions. These orders should then be committed on the school's financial system to prevent overspending.</p> <p>- Formal recovery arrangements should be established within the school which ensure that:</p> <ul style="list-style-type: none"> <li>income is received in advance of the service provided and parents are reminded of such;</li> <li>a recovery timetable is established and adhered to;</li> <li>debts that exceed an agreed value should be referred to the LA for recovery as per the Scheme for Financing Schools.</li> </ul> <p>- Inventory records maintained should record only assets over £500 or those that are of a portable and attractive nature.</p> <p>- The school should consider adopting the HBC Model Policy for Information Governance. A copy is provided with this report.</p> <p>- Staff with responsibilities under the Emergency Plan should sign to confirm that they have seen the plan and understand their responsibilities. A timetable should be established to carry out exercises to test / validate the plan. Results of such exercises should be reported to Governors and any lessons learnt incorporated into future emergency planning.</p> <p>- An internal audit should be undertaken of the Day Care Setting to provide necessary assurance on the risk and control environment in place and assess management arrangements for establishing sustainable operation of the setting.</p>	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>N</p> <p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>

- 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 2 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 2

<b>Audit</b>	<b>Assurance Level</b>
Workshops	<b>Satisfactory</b>
Officers Expenses	<b>Satisfactory</b>
Northgate Community Fund	<b>Satisfactory</b>
Youth Employment Initiative Quarter 1 Claim	<b>Satisfactory</b>
Catering	<b>Satisfactory</b>
Housing Benefits	<b>Satisfactory</b>
Local Council Tax Support Scheme	<b>Satisfactory</b>
Cash/Bank	<b>Satisfactory</b>
Centre for Independent Living	<b>Limited</b>
National Driver Offender Retraining Scheme	<b>Limited</b>
Highways	<b>Satisfactory</b>

For Members information, Table 3 below defines what the levels of assurance Internal Audit places on the audits they complete and what they mean in practice:

Table 3

<b>Assurance Level</b>	<b>Meaning</b>
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.

As indicated in table 2, two 'limited assurance' audit reports have been issued and information on these areas is provided in paragraphs 3.5 to 3.6.

- 3.5 Centre for Independent Living (CIL) has been assessed as limited assurance due to the fact that adequate income procedures were not maintained for monies received at the Centre. Testing also identified minor discrepancies between income records and actual monies received regarding client spends and bistro income. Reconciliation of the petty cash fund also identified a minor difference between actual monies held to records and receipts in place. Actions have been agreed that strengthen the administrative arrangements at the centre and a follow up audit will be completed to ensure they are implemented.
- 3.6 National Driver Offender Retraining Scheme has been assessed as limited assurance due to the fact that arrangements for administering the scheme were weak in relation to reconciliations carried out between course attendee data, payments made and income collected, the procurement of trainers and the rates they are paid and budget monitoring arrangements. Changes in the contract between HBC and Cleveland and Durham Police Forces also needed to be reflected in an amended contract. Actions have been agreed that strengthen the administrative arrangements in relation to the scheme and a review of the contract is being undertaken. A follow up audit will be completed to ensure that the actions agreed are implemented in order to mitigate risk.
- 3.7 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.
- 3.8 Table 4 below details the audits that were ongoing at the time of compiling the report.

Table 4

<b>Audit</b>	<b>Objectives</b>
Transparency Code	Provide assurance on the arrangements in place for complying with the Local Government Transparency Code 2015.
Council Tax	Ensure this responsibility is being operated in accordance with statutory regulations.
Building Maintenance Contract	Review the strategic framework; maintenance planning; budgetary control; allocation of works and performance management.
Security Management Computer Audit	This audit review seeks to establish whether Northgate Information Systems (NIS) has developed and maintained a Security Management Plan which includes an Information Security Management System (ISMS) as detailed in the contract agreed.



Procurement	In relation to purchase cards review policy and procedures, permitted usage, restrictions on types of purchases, application process, card distribution and safe custody of cards, transaction process, reconciliation of statements and authorisation controls.
Business Rates	Ensure arrangements in place comply with legislative requirements.
Millhouse and Headland Leisure Centres	Review system access; income including vending machine income; procurement & purchase card transactions; staffing; health & safety; and performance management.
Centre for Excellence in Teaching and Learning	Review procurement arrangements, room booking processes, building access arrangements and inventories.
Debtors	Review procedures to ensure all debts due are raised, reviewed and collected promptly.
Creditors	Ensure payments system is well controlled.
Salaries	Ensure all payments made are accurate, timely and comply with relevant legislation.
Budgetary Control	Ensure budgetary control process is accurate, timely and complies with relevant legislative requirements.
Empty Home Scheme	The objectives of the audit are to ensure that effective project management arrangements are in place, including the reporting of outcomes for the previous empty homes scheme, a consistent approach to selecting and procuring empty houses is in place which ensures that Local / national objectives are achieved, improvement works are carried out in accordance with agreed specifications within budget and time constraints, effective and responsive property management ensures the prompt identification of appropriate tenants, effective monitoring ensures that the scheme is delivered in accordance with Homes and Community Agency funding conditions and expectations, processes in place ensure that the terms and conditions of the grant funding are complied with.

- 3.9 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 There is a risk that if 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, this would lead 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**

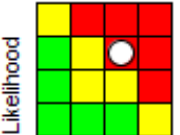
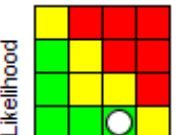
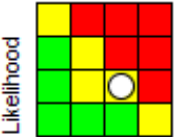
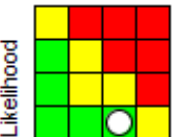
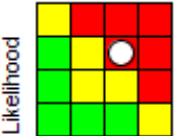
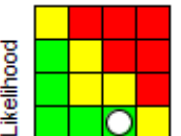
13.1 Internal Audit Reports.

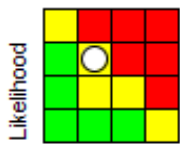

**14. CONTACT OFFICER**

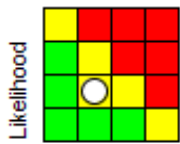
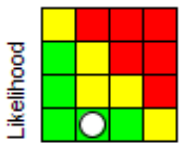


14.1 Noel Adamson  
Head of Audit and Governance  
Civic Centre  
Victoria Road  
Hartlepool  
T24 8AY

Tel: 01429 523173

Email: [noel.adamson@hartlepool.gov.uk](mailto:noel.adamson@hartlepool.gov.uk)

Audit	Objective	Assurance Level		
<b>Workshops</b>	Ensure that all vehicles receive necessary maintenance within prescribed timescales. Stock held is held at sufficient levels to ensure that the correct parts are available when required. Stock is held in a secure manner.	<b>Satisfactory</b>		
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
Asset useful economic life may not be optimised if they are not adequately maintained leading to financial loss. Employees may use vehicles not fit for purpose resulting in breakdown and/or accidents leading to potential claims against HBC and/or service disruption.		Supervisors to go through the vehicle and plant list to ensure all vehicles and items of plant are included in the annual maintenance programme. Systems to be in place by 31.08.18		
There may be no means of verifying that inspections have been undertaken or have been undertaken to the required standard leading to vehicle loss and potential service disruption.		Vehicle and plant safety inspection sheets will be placed in the relevant file within the same week of the inspection. Supervisors to monitor. Systems to be in place by 31.08.18.		
Asset useful economic life may not be optimised if they are not adequately maintained.		Supervisors to carry out quality checks, record findings and file them in the relevant vehicle files. Systems to be in place by 31.08.18.		

Vehicles may not be used if they are held up in workshops prior to inspection		Workshop reception and Supervisors to complete and maintain a daily workload 'booking in log' with detail to include date and time in the workshop and work completion times. Systems to be in place by 31.08.18.	
---	---	---	---

Audit	Objective			Assurance Level
<b>Officers Expenses</b>	Ensure that up to date Policy / procedures are in place that define 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.			<b>Satisfactory</b>
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Inaccurate payments may be made.			Amended guidance will be produced for the completion and checking of claims and also forwarded to relevant managers to review the journeys undertaken to see if these have been incorrectly recorded or inaccurately entered.	
Vehicles may not be adequately insured resulting in potential claims being made against the local authority in the event of accident.			The Council is reviewing its Driving at Work Policy for implementation in 2019. Once developed, the Council will review its document checking process to ensure the right level of checks are undertaken based on different risk levels. The claimants that did not have evidence of valid business insurance will be checked to ensure they have adequate coverage and admin teams that administer this process will be reminded to ensure that all claimants must provide proof of adequate insurance cover.	

There may be no means of verifying the validity and accuracy of claims submitted if supporting documentation is not available		Departmental admin teams to be reminded of the importance of providing copies of Employee Expenses claim forms.	
Non-compliance with Corporate procedures.		Departmental admin teams to be reminded that appropriate checks must be undertaken on all claims to ensure that the correct rates are claimed and receipts are provided where appropriate before authorisation.	



Audit	Objective			Assurance Level
Northgate Community Fund	Ensure the fund is operated in line with terms and conditions.			Satisfactory
Risk Identified		Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented
Grant monies are not provided by Northgate Public Services as agreed or the value agreed is not provided as contractually agreed. Terms & conditions of the grant are not adhered to and applicants not meeting the criteria are awarded funds. Monies provided to successful applicants are not used for the agreed purpose and there is no or insufficient monitoring to identify this. Northgate Public Services and Hartlepool Council officers/Members are not provided with regular updates to ensure they are kept appraised of applications, awards and spend.			Assistant Director, Corporate Services to formally request an evaluation report from Project 65 for 2017/18 to provide evidence of use of grant monies and impact/outcomes from the project.	

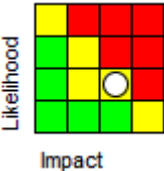
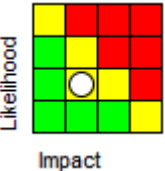
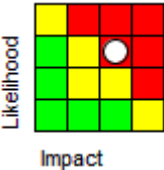
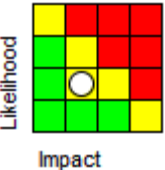
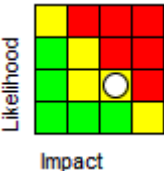
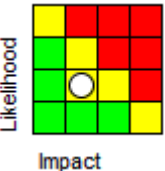
<b>Audit</b>	<b>Objective</b>			<b>Assurance Level</b>
<b>Youth Employment Initiative Quarter 1 Claim</b>	Ensure claims are made in line with terms and conditions of grant.			<b>Satisfactory</b>
<b>Risk Identified</b>		<b>Risk Level prior to action implemented</b>	<b>Action Agreed</b>	<b>Risk Level after action implemented</b>
No unmitigated risk identified.				

<b>Audit</b>	<b>Objective</b>			<b>Assurance Level</b>
<b>Catering</b>	Ensure procedures are robust and regularly monitored.			<b>Satisfactory</b>
<b>Risk Identified</b>		<b>Risk Level prior to action implemented</b>	<b>Action Agreed</b>	<b>Risk Level after action implemented</b>
No unmitigated risk identified.				

<b>Audit</b>	<b>Objective</b>			<b>Assurance Level</b>
<b>Housing Benefit</b>	Ensure that adequate policies/procedures are in place in relation to administration of the service, claims processing, arrangements for processing changes in claimant's circumstances, payments and the prevention / detection of fraud.			<b>Satisfactory</b>
<b>Risk Identified</b>		<b>Risk Level prior to action implemented</b>	<b>Action Agreed</b>	<b>Risk Level after action implemented</b>
No unmitigated risk identified.				

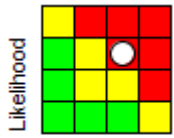

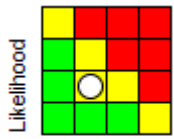

Audit	Objective	Assurance Level
<b>Local Council Tax Support System</b>	Ensure that the scheme complies with legislation and that effective arrangements are in place to ensure that the scheme is financially viable and the Council is adequately protected from financial risks arising from changes in circumstances which lead to the scheme costing more than planned.	<b>Satisfactory</b>
Risk Identified	Risk Level prior to action implemented	Action Agreed
No unmitigated risk identified.		

Audit	Objective	Assurance Level
<b>Cash/Bank</b>	Ensure that adequate policies/procedures are in place in relation to security, cash (and other income) collection and posting, banking, reconciliations, over/under bankings, encashment, suspense account and bounced/unpresented cheques.	<b>Satisfactory</b>
Risk Identified	Risk Level prior to action implemented	Action Agreed
Procedures in place to deal with the encashment of Housing Benefit cheques may not be followed.		Procedures to be reviewed and circulated amongst cashiers.
Staff are unaware of current trends/threats in relation to fraud.		Fraud and awareness training will be provided to staff by Internal Audit.


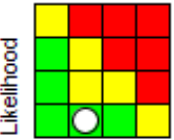

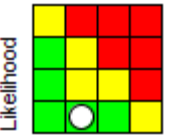

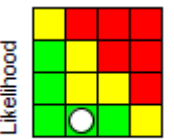
Audit	Objective	Assurance Level		
<b>Centre for Independent Living</b>	The audit will cover the following processes: client personal spends; income; bistro; room bookings & charging; petty cash; procurement cards; health & safety; staffing; data security; physical security and inventory.	<b>Limited</b>		
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
Client user monies may be lost, stolen or misappropriated.		It was found that £10 (client monies) had been wrongly banked and not recorded in the client's record. Although <u>some</u> admin staff were aware, a member of staff who had returned back to work from long term sick was unaware. Individual checks will continue on a daily basis, in addition to this a new weekly check of all monies will be carried out along with the introduction of an independent monthly audit. The audit will reconcile the running balance and if any excess monies need to be returned to the service user, admin staff will notify the individual and the parent /carer. This will be recorded on a new monthly audit sheet, signed by two staff.		
Income may not be properly accounted for and monies could be misappropriated.		Previously attendance and income records were kept separate this made it difficult to find at the time of the audit. In future the copy of the income analysis sheet/weekly banking and courier receipt slip will be stapled together and stored in the same file. Corresponding Information i.e. Paper Weekly registers will also be stapled all together. Copies will also be kept by the Cook in charge and a copy in Admin (Bistro Income file).		
Income may not be properly accounted for and monies could be misappropriated.		This pertains to agreements with organisations such as Incontrol able or Hi Vis who reside at the CIL where they have agreements with the department to carry out work in lieu of rent contributions. Although this information was held by The Team manager it was not available in his absence. Copies of written agreements/lease agreements and individual agreements drawn up with the appropriate Head Of Service and Team Manager in conjunction with Principal Estate's surveyor will be kept		

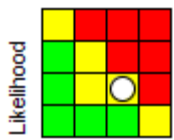

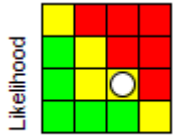
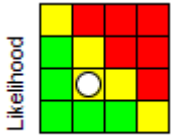


### 4.3

		on file. This will include a list of agreed fees and service charges. This information will be stored securely in the main office.	
Income may not be properly accounted for and monies could be misappropriated, goods may not be procured in line with the Authority's Financial Procedure Rules and inadequate stock records are maintained which may result in the loss, theft and/or misappropriation of goods.	 <p>Likelihood</p> <p>Impact</p>	Although the till does provide a receipt, it does not provide an individual itemised bill. The Centre will look at reprogramming or purchasing a new till to provide a more detailed receipt. Alongside this the Centre will complete an audit of stock and complete the Safe Food Diary, which will help identify what is sold and what should be left in stock, on a weekly basis. In addition to this a weekly menu will be produced, this will ensure greater transparency for customers and in terms of planning this will help to identify the quantities of stock / ingredients needed. It will also identify/check what ingredients / stock should have been used that week.	 <p>Likelihood</p> <p>Impact</p>
Petty cash monies may not be properly administered resulting in misappropriation and/or misuse of funds.	 <p>Likelihood</p> <p>Impact</p>	Ensure staff complete a petty cash voucher, Individual receipts will be stapled to each voucher, Reconciliation sheet completed (when cash is low), Two signatures required after checking, A balance check will be completed. All paper work (reconciliation sheets, Vouchers etc.) to be located together, to reduce the time locating individual items. All information to be stored in the Petty Cash file in the main office. All members of the admin team to be refreshed/reminded of procedures.	 <p>Likelihood</p> <p>Impact</p>

Audit	Objective		Assurance Level
Highways	Ensure grant spent in line with 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		
<b>National Driver Offender Retraining Scheme.</b>	Ensure controls are working appropriately in the following areas: Contract Arrangements; Bookings / Income; Appointment of trainers; Course Provision; Refunds; Payments; Budgets; Information Security and Performance Management.	<b>Limited</b>		
Risk Identified	Risk Level prior to action implemented	Action Agreed	Risk Level after action implemented	
Payments may not be received for courses booked if there are insufficient/ineffective income collection controls in place. Incorrect fees may be charged for the course resulting in over/under collection. Attendees may not be booked on to the correct course or at the correct venue.	 <p>Likelihood</p> <p>Impact</p>	Lack of resources has impacted on the reconciliations, but an additional team member is now in place. The Clarity system reports are to be double checked that they are now running correctly, and reconciliations will then be done on a monthly basis.	 <p>Likelihood</p> <p>Impact</p>	
Courses may not fulfil the requirements of the scheme if they are not fully accessible and inclusive, resulting in non-compliance with the terms and conditions of the contract and also the scheme.	 <p>Likelihood</p> <p>Impact</p>	2 No. Lead Training Officers are to be appointed this week following the Trainer Recruitment exercise, who will lead on the monitoring of course delivery. 2 other Trainers will also be engaged to do additional internal monitoring to ensure full compliance with this requirement. On looking in detail at the Compliance Officer functions it became clear that the Support Officer undertakes the bulk of these. The Support Officer is to be appointed to the Compliance Officer role, and an additional member of staff is now working in the team to backfill her workload.	 <p>Likelihood</p> <p>Impact</p>	
Trainers may not have the required qualifications / skills to provide the course in accordance with the scheme requirements. This will result in non-compliance with the requirements for Course Providers.	 <p>Likelihood</p> <p>Impact</p>	A recruitment exercise for the Trainers has just been undertaken through the NEPO Portal. This has also resulted in an additional 10 Trainers being appointed. The process required Trainers to provide copies of qualifications and details of the relevant experience. As stated time constraints have impacted on the use of the spread sheet, but given the additional member of staff this will improve and the document will be used.	 <p>Likelihood</p> <p>Impact</p>	

<p>Non-compliance with terms and conditions of the contract resulting in termination of contract.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>The amount to be paid to the Police Forces is set nationally, as is the NDORS levy, the only variation is the amount which is retained by the course providers. The current contract expires in August 2019, and the relevant amounts will be included in the new contract or service level agreement.</p> <p>-The contract is currently being reviewed by HBC's Legal Section;-Procedure notes are to be drafted in case of long term staff absence; -The NPPV checks are to be done on completion of the current Trainer recruitment exercise; -The retention of the paper course registers for 4 months is a national requirement from NDORS to course providers, not from the Police, hence it not being included in the contract; -The costs for administering this scheme are being reviewed so that a cost per person per course can be calculated going forward, which ensures that all costs are covered; -Data relating to course attendees is generated by the NDORS system. Payments are not made for non-attendees.</p>	 <p>Likelihood</p> <p>Impact</p>
<p>The required £49 for each person attending a course may not be paid to the correct Police Authority or payments may be made when the course is not attended.</p>	 <p>Likelihood</p> <p>Impact</p>	<p>Clarity system reports are now working correctly to address the first issue, with manual checks being undertaken in the short term to ensure accuracy. Figures were produced manually previously due to the Clarity reports not working at the time.</p> <p>Cleveland Police are in continued dialogue with their legal team regarding being able to submit invoices. Data relating to course attendees is generated by the NDORS system. Payments are not made for non-attendees.</p>	 <p>Likelihood</p> <p>Impact</p>

# AUDIT AND GOVERNANCE COMMITTEE

13<sup>th</sup> December 2018



**Report of:** Director of Finance and Policy

**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 2017/18 including the 2017/18 outturn Prudential Indicators;
- ii. Provide a mid-year update of the 2018/19 Treasury Management activity; and
- iii. Enable the Audit and Governance Committee to scrutinise the recommended 2019/20 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 in relation to its historic capital expenditure (including Prudential Borrowing);
- the borrowing strategy for the use of Prudential Borrowing for capital investment approved as part of the Medium Term Financial Strategy; 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 1<sup>st</sup> April, 2004, and has subsequently been updated, most recently in 2017.
- 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 2017/18
  - Treasury Management Strategy 2018/19 mid-year review
  - Treasury Management Strategy 2019/20
  - Minimum Revenue Provision and Interest Cost and Other Regulatory Information 2019/20

### 3. ECONOMIC ENVIRONMENT AND OUTLOOK FOR INTEREST RATES

- 3.1 **UK** – The first half of 2018/19 has seen modest UK economic growth which has enabled the Monetary Policy Committee (MPC) to increase the base rate to 0.75% from 0.5%, the first time interest rates have risen above 0.5% since March 2009. Growth is expected to be modest at around 1.5% for the current year and potentially pick up to 1.8% in 2019, depending on the arrangements in relation to withdrawal from the European Union in March 2019.
- 3.2 Some MPC members have expressed concerns about a build-up of inflationary pressures, particularly with the pound falling in value against both the US Dollar and the Euro. The Consumer Price Index (CPI) measure of inflation is currently 2.5% but is expected to fall back towards the Bank of England's 2% inflation target over the next two years which assumes minimal increases in Base Rate. The MPC has indicated the Base Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Base Rate for the second half of 2019. The Office for Budget Responsibility's revised growth forecast up to 2022 are set out in the following table:

Year	March 2018 Growth Forecast	November 2018 Growth Forecast
2018	1.5%	1.3%
2019	1.3%	1.6%
2020	1.3%	1.4%
2021	1.4%	1.4%
2022	1.5%	1.5%

### 3.3 Other economic factors to note are:

- Unemployment is now at a 43 year low of 4% based on the Independent Labour Organisation measure but wage inflation has been weak and neutral in the context of inflation, which makes the UK sensitive to weakened consumer spending and lower economic growth. This indicator has more recently begun to pick up.
- The housing market is currently weak, with price increases averaging 2-3% with reductions in London.

### 3.4 **EU** – Growth has been in the region of 2% and lower than expected, potentially because of the US tariffs on manufacturing exports such as cars.

### 3.5 **USA** – Easing of the fiscal policy is fuelling a (temporary) boost in consumption which has generated an upturn in the Federal Reserve Interest Rate but also an upturn in inflationary pressures. With inflation moving towards 3%, the Federal Reserve has already increased its interest rate to 2% and further increases to between 2.25% - 2.5% are expected before the end of 2018, with the prospect of more increases in 2019.

### 3.6 **Other Economies** – In China economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus and medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property. Japan is still struggling to stimulate economic growth and keep inflation within its 2% target.

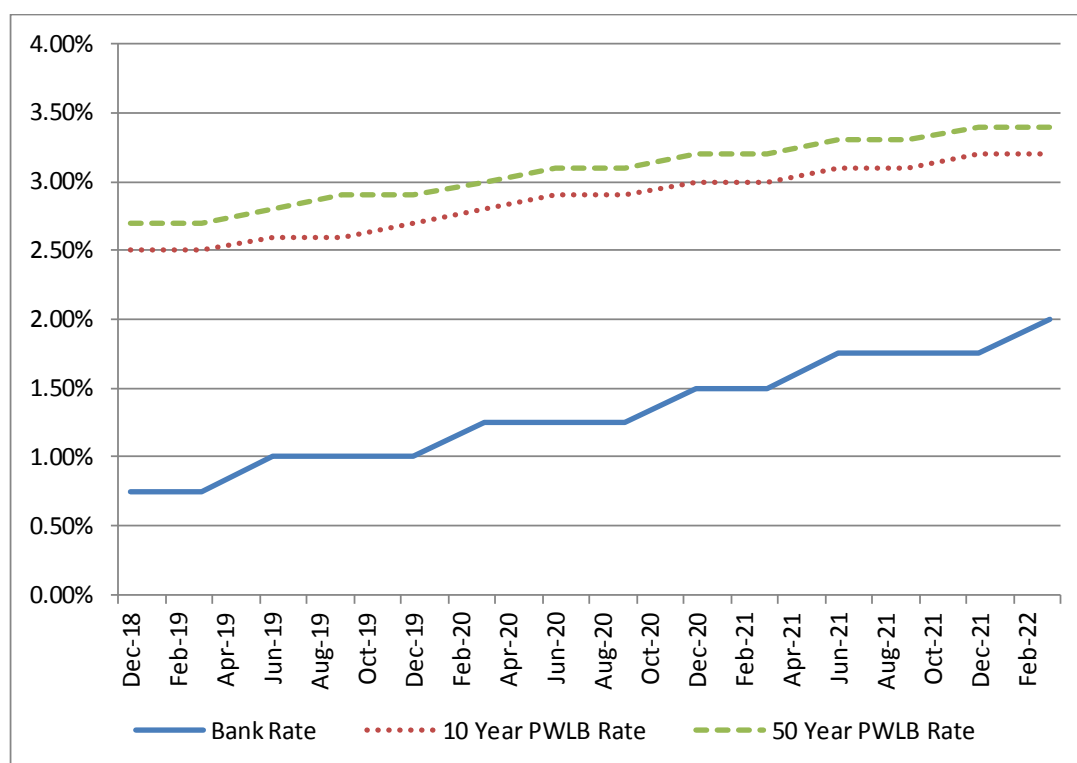
### 3.7 **Interest Rate Forecasts**

### 3.8 The recent increase in the Base Rate to 0.75% is only the second rise since the financial crash and the MPC has emphasised that future Base Rate increases would be gradual and around 2.5% in ten years' time.

### 3.9 Link Asset Services (the Council'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 anticipates the next increase in the Base Rate to be after Brexit in August 2019, with further increases of 0.25% in May and November 2020 to reach 1.5%. However, the cautious pace of even these limited increases is dependent on an orderly withdrawal from the EU.

### 3.10 Link Asset Services believe that the balance of risks to economic growth in the UK is probably neutral. The balance of risks to increases in Base Rate and shorter term PWLB rates are probably also even and are broadly dependent on the strength of GDP growth, how slowly inflation pressures subside, and how quickly the Brexit negotiations move forward positively. Other downside risks include the potential for a resurgence of the Eurozone debt crisis, protectionist trade policies and the impact on struggling economies exposure of banks to loans to such affected countries.

### 3.11 Interest Rate Forecast up to Feb 2022



- 3.12 Since the late 1990s Base Rate averaged 5% until 2009 when the Bank of England reduced it to the historically low 0.5% in response to the financial crisis and again to 0.25% in 2016 following the EU referendum. Over the same period PWLB rates have been significantly higher than they are at present. In August 2018 the Bank of England raised the interest rate for only the second time in a decade. The rate has risen by a quarter of a percentage point, from 0.5% to 0.75% - the highest level since March 2009. 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 a low historic level.

## 4. **TREASURY MANAGEMENT OUTTURN POSITION 2017/18**

### 4.1 **Capital Expenditure and Financing 2017/18**

- 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, previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then to 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 £14.434m, of which £2.998m 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 yet to be expensed or paid for through revenue or capital resources. Each year the Council is required to apply revenue resources to reduce this outstanding balance (termed Minimum Revenue Provision).
- 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 £101.992m as shown at Appendix A comprising £70.983m relating to the core CFR, £21.196m relating to business cases and £9.814m relating to the Housing Revenue Account (HRA). This is lower than the approved estimate of £102.998m owing to rephasing of capital expenditure into 2018/19.
- 4.8 The Council's total long term external borrowing as at 31<sup>st</sup> March, 2017 was £85.7m and reduced to £84.3m at 31<sup>st</sup> March 2018. This decrease was in line with the approved strategy and reflected the partial repayment of annuity loans taken out in previous financial years.
- 4.9 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 2017/18**
- 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 2017/18 the Council has maintained gross borrowing within its Authorised Limit.



- 4.13 **Gross Borrowing and the CFR** - In order to ensure that borrowing levels are prudent, over the medium term the Council's external borrowing, must only be for a capital purpose. Gross borrowing should not exceed the CFR for 2017/18 plus the expected changes to the CFR over 2018/19 and 2019/20. The Council has complied with this Prudential Indicator.

4.14 **The treasury position 31<sup>st</sup> March 2018**

- 4.15 The table below shows the treasury position for the Council as at the 31<sup>st</sup> March, 2018 compared with the previous year:

Treasury position	31st March 2017		31st March 2018	
	Principal	Average Rate	Principal	Average Rate
<b>Fixed Interest Rate Debt</b>				
- Tees Valley Unlimited Loan	£2.2m	0.00%	£2.2m	0.00%
- PWLB	£38.5m	3.04%	£37.1m	3.08%
- Market Loans (Maturities)	£25.0m	3.92%	£25.0m	3.92%
- Market Loans (LOBOs)	£20.00	4.12%	£20.0m	4.12%
<b>Total Long Term Debt</b>	<b>£85.7m</b>	<b>3.47%</b>	<b>£84.3m</b>	<b>3.50%</b>
<b>Total Investments</b>	<b>£46.5m</b>	<b>0.40%</b>	<b>£37.1m</b>	<b>0.48%</b>
<b>Net borrowing Position</b>	<b>£39.2m</b>		<b>£47.2m</b>	

- 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 0.13% and 0.43% compared to prevailing PWLB loans.
- 4.17 A key performance indicator shown in the above table is the very low average rate of external debt of 3.50% for debt held as at 31<sup>st</sup> March, 2018. 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 Ministry of Housing, Communities and Local Government (MHCLG) guidance, which has been implemented in the annual investment strategy approved by Council.
- 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 2017/18 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.

#### 4.21 **Regulatory Framework, Risk and Performance 2017/18**

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 MHCLG 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 8<sup>th</sup> 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 2018/19 MID YEAR REVIEW**

5.1 The Treasury Management Strategy for 2018/19 was approved by Council on 22<sup>nd</sup> February 2018. The Council's borrowing and investment position as at 30<sup>th</sup> September 2018 is summarised as follows:

	£m	Average Rate
Tees Valley Unlimited Loan	2.2	0.00%
PWLB Loans	35.7	3.12%
Market Loans (Maturities)	25.0	3.92%
Market Loans (LOBOs)	20.0	4.12%
<b>Gross Debt</b>	<b>82.9</b>	<b>3.52%</b>
Investments	39.0	0.70%
<b>Net Debt as at 30-09-18</b>	<b>43.9</b>	

- 5.3 Net Debt has decreased since 31<sup>st</sup> March 2018 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.
- 5.4 As part of the Treasury Strategy for 2018/19 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 2019/20**

- 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 2018/19 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 2019/20**

- 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 Sowing to the continued low Base Rate the Treasury Management Strategy has been to net down investments and borrowings resulting in annual savings reflected in the MTFS. 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 2019/20 to 2021/22 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 low long term interest rates, meeting the objective of funding the borrowing requirement at historically low long term interest rates. This action secured the Treasury Management savings built into the budget since 2015/16 of £1.270m, which reduced the recurring budget by 21%.

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 Director of Finance and Policy 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 Director of Finance and Policy may do this under delegated power where, for instance, an increase 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; including the Western Growth Corridor Scheme 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 2019/20**

8.1 The Ministry for Housing, Communities and Local Government (MHCLG) issued investment guidance in 2010, updated in 2017, 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 Director of Finance and Policy 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 Director of Finance and Policy 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 There are no proposed changes to existing counter parties and the table below shows the proposed limits in 2019/20 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)

\*including Svenska Handelsbanken

## 8.8 Specified and Non-Specified Investments

8.9 MHCLG regulations classify investments as either Specified or Non-Specified. Specified Investment is any investment not meeting the Specified definition.

8.10 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.

8.11 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.

8.12 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 2019/20

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 MHCLG 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 The budget strategy is based on the following MRP statement and Council is recommended to formally approve this statement:

- For capital expenditure incurred before 1<sup>st</sup> April, 2008 the Council's MRP policy is to calculate MRP based on a 50 year annuity repayment.
  - i. Where MRP has been overcharged in previous years, the recovery of the overcharge will be implemented by reducing the MRP in relation to this capital expenditure by reducing future MRP charges that would otherwise have been made. It should be noted that this will ensure the debt will be paid off by 2056/57 whereas the previous 4% reducing balance MRP charge would have left debt of £9.4m at this date.
  - ii. The total MRP after applying the adjustment will not be less than zero in relation to this capital expenditure.
  - iii. The cumulative amount adjusted for will never exceed the amount overpayment.
- From 1<sup>st</sup> 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.

- The MHCLG revised its MRP guidance in 2017, which would impact on any future changes to the Council's MRP policy, however the guidance is not retrospective. The approved MRP policy implemented prior to the MHCLG changes is therefore compliant with the recent MHCLG revisions and will be carried forward in the future years, until such time as a prudent approach is considered to be appropriate.
- MRP in relation to the Hartlepool Western Growth Corridor (HWGC) will be applied using a 40 year straight line basis, with additional annual VRP applied to reflect S106 income to achieve repayment over a 7 to 10 year period. Where additional VRP is made any 'overpayment' may be used to reduce future MRP charges if S106 receipts are delayed.

#### 9.4 **CIPFA Treasury Management Code of Practice**

9.5 The Council has adopted CIPFA Treasury Management Code of Practice. Confirmation of this is the first prudential indicator.

#### 9.6 **Treasury Management Advisors**

9.7 The Council uses Link Asset Services – Treasury as its external treasury management advisors.

9.8 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.

9.9 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.

#### 9.10 **Markets in Financial Instruments Directive (MIFID II)**

9.11 On 3<sup>rd</sup> January 2018 an updated version of the European Union's Markets in Financial Instruments Directive (known as MIFID II) comes into effect. It is designed to offer greater protection for investors and inject more transparency into financial markets. Under MIFID II all local authorities will be classified as "retail" counterparties and will have to consider whether to opt up to "professional" status and for which type of investments

9.12 Local authorities that choose not to opt up or do not meet the minimum criteria for opting up (i.e. minimum investment balances of £10m) may face a reduction in the financial products available to them, a reduction in number of brokers and asset managers that will be able to engage with and may face increased fees.



9.13 Local authorities that choose to opt up must be able to satisfy some quantitative tests, and each Financial Institution will independently determine whether the Authority meet the qualitative test of being appropriately knowledgeable, expert and experienced. Financial Institutions also need to satisfy themselves that the Authority can make its own investment decisions and understands the risks involved.

9.14 The Council choose to opt up in order to maintain the Council's ability to operate effectively under the new regime.

## **10. FINANCIAL CONSIDERATIONS**

10.1 As detailed in preceding paragraphs.

## **11. RISK IMPLICATIONS**

11.1 None.

## **12. LEGAL CONSIDERATIONS**

12.1 None.

## **13. CHILD AND FAMILY POVERTY**

13.1 None.

## **14. EQUALITY AND DIVERSITY CONSIDERATIONS**

14.1 None.

## **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 The report sets out the borrowing strategy for the core CFR of netting down the remaining under borrowing against investments but highlights the continued economic uncertainty and the possibility that if circumstances change further borrowing may be required. The report also outlines a strategy of temporarily internally funding business cases 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.
- 18.3 In relation to the investment strategy the Council has adopted an extremely prudent approach over the last few years and continues to do so. It is recommended that the Council approves the existing counterparty criteria as set out in paragraphs 8.7.

## 19. RECOMMENDATIONS

- 19.1 It is recommended that Members approve the following proposals:

### 19.2 **Treasury Management Outturn Position 2017/18**

- i) Note the 2017/18 Treasury Management Outturn detailed in section 4 and Appendix A.

### 19.3 **Treasury Management Strategy 2018/19 Mid-Year Review**

- ii) Note the 2018/19 Treasury Management Mid-year Position detailed in section 5.

### 19.4 **Treasury Management Strategy 2019/20 (Prudential Indicators)**

- iii) Note that detailed prudential indicators will be reported to full Council in February 2019.

### 19.5 **Borrowing Strategy 2019/20**

- 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 Director of Finance and Policy 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 borrowing for 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 Director of Finance and Policy to externally borrow for these schemes if an interest rates rise is expected.

**19.6     Investment Strategy 2019/20**

vii) Approve the Counterparty limits as set out in paragraph 8.7.

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

viii) Approve the MRP statement outlined in paragraph 9.3 above.

**20.     REASON FOR RECOMMENDATIONS**

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

**21.     CONTACT OFFICER**

Chris Little  
Director of Finance and Policy  
[Chris.Little@hartlepool.gov.uk](mailto:Chris.Little@hartlepool.gov.uk)  
01429 523003

## Appendix A

**Prudential Indicators 2017/18 Outturn**1. 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.

2017/18 Estimate		2017/18 Outturn
4.01%	Ratio of Financing costs to net revenue stream	3.62%

2. Capital Expenditure

This indicator shows the total capital expenditure for the year.

2017/18 Estimate £'000		2017/18 Outturn £'000
15,077	Capital Expenditure	14,434

The actual is lower than estimated owing to the phasing of capital 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.

2017/18 Estimate £'000		2017/18 Outturn £'000
500	Core Capital Expenditure Financed by Borrowing	379
2,904	Business Case Capital Expenditure Financed by Borrowing	1,877
1,146	HRA Capital Expenditure Financed by Borrowing	742
<b>4,550</b>	<b>Total Capital Expenditure Financed by Borrowing</b>	<b>2,998</b>

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.

2017/18 Estimate £'000		2017/18 Outturn £'000
70,914	Core Capital Financing Requirement	70,983
21,658	Business Case Capital Financing Requirement	21,196
10,426	HRA Capital Financing Requirement	9,814
<b>102,998</b>	<b>Total Capital Financing Requirement</b>	<b>101,993</b>

The capital financing requirement is lower than estimated owing to the phasing of capital expenditure.

#### 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.

2017/18 Limit £'000		2017/18 Peak £'000
125,000	Authorised limit for external debt	86,831

The above Authorised Limit was not exceeded during the year. The level of debt as at 31<sup>st</sup> March 2018, excluding accrued interest was £84.308m. The peak level during the year was £86.831m.

#### 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.

2017/18 Limit £'000		2017/18 Peak £'000
115,000	Operational boundary for external debt	86,831

The operational limit was not exceeded in the year. The peak level of debt was £86.831m.

#### 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.

2017/18 Limit £'000	Upper limits on fixed and variable interest rate exposure	2017/18 Peak £'000
115,000 85,000	Fixed Rates Variable Rates	66,831 20,000

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	111,000	0	4,764	9,764
Between one and five years	121,000	0	10,069	25,069
Between five and ten years	121,000	0	3,755	3,755
Between ten and fifteen years	121,000	0	3,831	3,831
Between fifteen and twenty years	121,000	0	2,984	2,984
Between twenty and twenty-five years	121,000	0	1,993	1,993
Between twenty-five and thirty years	121,000	0	2,251	2,251
Between thirty and thirty-five years	121,000	0	2,691	2,691
Between thirty-five and forty years	121,000	0	6,533	6,533
Between forty and forty-five years	121,000	0	947	947
More than forty-five years	121,000	0	45,066	25,066

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	20,000	0	0
Actual	0	0	0

# AUDIT AND GOVERNANCE COMMITTEE

13<sup>th</sup> December 2018



**Report of:** Director of Regeneration and Neighbourhoods

**Subject:** SAFER HARTLEPOOL PARTNERSHIP  
PERFORMANCE

---

## 1. PURPOSE OF REPORT

- 1.1 To provide an overview of Safer Hartlepool Partnership (SHP) performance for Quarter 2 – July 2018 – September 2018 (inclusive).

## 2. BACKGROUND

- 2.1 The draft Community Safety Plan 2017-20 outlines the Safer Hartlepool Partnership strategic objectives, annual priorities and key performance indicators 2018/19.

## 3. PERFORMANCE REPORT

- 3.1 The report attached (**Appendix A**) provides an overview of Safer Hartlepool Partnership performance during Quarter 2, comparing current performance to the same time period in the previous year, where appropriate.
- 3.2 In line with reporting categories defined by the Office for National Statistics (ONS), recorded crime information is presented as:

**Victim-based crime** – All police-recorded crimes where there is a direct victim. This victim could be an individual, an organisation or corporate body. This category includes violent crimes directed at a particular individual or individuals, sexual offences, robbery, theft offences (including burglary and vehicle offences), criminal damage and arson.

**Other crimes against society** - All police-recorded crimes where there are no direct individual victims. This includes public disorder, drug offences, possession of weapons and other items, handling stolen goods and other miscellaneous offences committed against the state. The rates for some crime types within this category could be increased by proactive police activity, for



example searching people and finding them in possession of drugs or weapons.

#### **4. EQUALITY AND DIVERSITY CONSIDERATIONS**

4.1 There are no equality of diversity implications.

#### **5. SECTION 17**

5.1 There are no Section 17 implications.

#### **6. RECOMMENDATIONS**

6.1 The Audit and Governance Committee note and comment on the SHP performance in Quarter 2.

#### **7. REASONS FOR RECOMMENDATIONS**

7.1 The Audit and Governance Committee has within its responsibility to act as the Council's Crime and Disorder Committee and in doing so scrutinise the performance management of the Safer Hartlepool Partnership.

#### **8. BACKGROUND PAPERS**

8.1 The following background papers were used in the preparation of this report:-

Safer Hartlepool Partnership – Community Safety Plan 2017-20

#### **9. CONTACT OFFICER**

Denise Ogden  
Director of Regeneration and Neighbourhoods  
Hartlepool Borough Council  
Regeneration and Neighbourhoods  
Civic Centre  
Level 3  
Email: Denise.Ogden@hartlepool.gov.uk  
Tel: 01429 523300

Rachel Parker  
Community Safety Team Leader  
Hartlepool Borough Council  
Regeneration and Neighbourhoods  
Hartlepool Police Station  
Email: Rachel.Parker@hartlepool.gov.uk  
Tel: 01429 523100

## Appendix A

### Safer Hartlepool Performance Indicators Quarter 2 July - September 2018

#### Strategic Objective: Reduce Crime & Repeat Victimisation

Indicator Name	Baseline 2017/18	Local Directional Target 2018/19	Jul – Sep 17	Current Position Jul 18-Sept 18	Year to Date 2018/19	Actual Difference	% Difference
All Recorded Crime	10769	Reduce	2598	3025	5828	427	16.4%
Residential Burglary	880	Reduce	177	169	350	-8	-4.5%
Vehicle Crime	1259	Reduce	268	151	347	-117	-43.7%
Shoplifting	1534	Reduce	357	494	931	137	38.4%
Local Violence	2431	Reduce	635	933	1686	298	46.9%
Repeat Cases of Domestic Violence – MARAC	33.25%	Reduce	27%	Awaiting info	Awaiting info		

#### Strategic Objective: Reduce the harm caused by Drugs and Alcohol

Indicator Name	Baseline 2017/18	Local Directional Target 2018/19	Jul – Sep 17	Current Position Jul 18-Sept 18	Year to Date 2018/19	Actual Difference	% Difference
Number of substance misusers going into effective treatment – Opiate	659	3% increase (TBC)	636	638	642	2	0.3%
Proportion of substance misusers that successfully complete treatment - Opiate	6.8%	12% (TBC)	5.3%	6.1%	--	0.008	15.1%
Proportion of substance misusers who successfully complete treatment and represent back into treatment within 6 months of leaving treatment	26.5%	10% (TBC)	18.5%	25%	--	0.065	35.1%
Reduction in the rate of alcohol related harm hospital admissions	Data unavailable	Data unavailable	Data unavailable	Data unavailable	Data unavailable		
Number of young people found in possession of alcohol	8	Reduce	8	0	0	-8	-100%

Strategic Objective: Create Confident, Cohesive and Safe Communities

Indicator Name	Baseline 2017/18	Local Directional Target 2018/19	Jul – Sep 17	Current Position Apr 18 - Jun 18	Year to Date 2018/19	Actual Difference	% Difference
Anti-social Behaviour Incidents reported to the Police	6801	Reduce	1967	1609	3259	-358	-18.2%
Deliberate Fires	416	Reduce	109	299	474	190	174.3%
Criminal Damage to Dwellings	627	Reduce	169	165	303	-4	-2.4%
Hate Incidents	176	Increase	57	46	84	-11	-19.3%

Strategic Objective: Reduce Offending & Re-Offending

Indicator Name	Baseline 2017/18	Local Directional Target 2018/19	Jul – Sep 17	Current Position Apr 18 - Jun 18	Year to Date 2018/19	Actual Difference	% Difference
Re-offending rate of young offenders*	Data not available	Reduce	Data not published yet	Data not available	Data not available		
First-Time Entrants to the Criminal Justice System	40 (TBC)	Reduce	5	1	3	-4	-80%
Offences committed by Prolific & Priority Offenders	Data not available	Data not available	23	141	Data not available		
Number of Troubled Families engaged with	769	1000	630	1001	1876	126	14.4%
Number of Troubled Families where results have been claimed	368	700	275	557	1056	58	11.6%

\* Re-offending figure is based on Cohort tracking – new cohort starts every quarter and this cohort (i.e. of Young Persons) is then tracked for a period of 12 months. Example: Jul 2015 to Jun 2016 and tracked until end of Jun 2017

Recorded Crime in Hartlepool July – September 2017

The Office for National Statistics (ONS) has developed a new approach to presenting crime statistics to help ensure a clearer, more consistent picture on recorded crime for the public.

Previously, national organisations (i.e. ONS, HMIC, and the Home Office through the police.uk website) have taken slightly different approaches to the way that they categorise groups of crime types and to the labels they use to describe those categories.

Following a public consultation, a new crime “tree” (the crime types organised into a logic tree format, see link below) has been devised and this will now be used on the crime and policing comparator to present recorded crime and solved crime information.

**Victim-based crime**

All police-recorded crimes where there is a direct victim. This victim could be an individual, an organisation or corporate body. This category includes violent crimes directed at a particular individual or individuals, sexual offences, robbery, theft offences (including burglary and vehicle offences), criminal damage and arson.

<b>Publicly Reported Crime (Victim Based Crime)</b>				
<b>Crime Category/Type</b>	<b>Jul 17 – Sept 17</b>	<b>Jul 18 – Sept 18</b>	<b>Change</b>	<b>% Change</b>
<b>Violence against the person</b>	<b>635</b>	<b>933</b>	<b>298</b>	<b>46.9%</b>
Homicide	0	1	1	100%
Death or Injury Due to Driving	0	0	0	0%
Violence with injury	241	264	23	9.5%
Violence without injury	394	351	-43	-10.9%
Stalking and Harassment	112	317	205	183%
<b>Sexual Offences</b>	<b>59</b>	<b>62</b>	<b>3</b>	<b>5.1%</b>
Rape	19	22	3	15.8%
Other Sexual Offences	40	40	0	0%
<b>Robbery</b>	<b>16</b>	<b>21</b>	<b>5</b>	<b>31.3%</b>
Business Robbery	2	1	-1	-50%
Personal Robbery	14	20	6	42.9%
<b>Acquisitive Crime</b>	<b>1257</b>	<b>1262</b>	<b>5</b>	<b>0.4%</b>
Burglary - Residential	177	169	-8	-4.5%
Burglary – Business and Community	71	56	-15	-21.1%
Bicycle Theft	44	53	9	20.5%
Theft from the Person	21	23	2	9.5%
Vehicle Crime (Inc Inter.)	268	151	-117	-43.7%
Shoplifting	357	494	137	38.4%
Other Theft	319	316	-3	-0.9%
<b>Criminal Damage &amp; Arson</b>	<b>406</b>	<b>397</b>	<b>-9</b>	<b>-2.2%</b>
<b>Total</b>	<b>2373</b>	<b>2675</b>	<b>302</b>	<b>12.7%</b>

**Other crimes against society**

All police-recorded crimes where there are no direct individual victims. This includes public disorder, drug offences, possession of weapons and other items, handling stolen goods and other miscellaneous offences committed against the state.

The rates for some crime types within this category could be increased by proactive police activity, for example searching people and finding them in possession of drugs or weapons.

<b>Police Generated Offences</b>				
<b>Crime Category/Type</b>	<b>Jul 17 - Sept 17</b>	<b>Jul 18 - Sept 18</b>	<b>Change</b>	<b>% Change</b>
<b>Public Disorder</b>	<b>112</b>	<b>187</b>	<b>75</b>	<b>67%</b>
<b>Drug Offences</b>	<b>60</b>	<b>60</b>	<b>0</b>	<b>0%</b>
Trafficking of drugs	18	21	3	16.7%
Possession/Use of drugs	42	91	49	116.7%
<b>Possession of Weapons</b>	<b>18</b>	<b>12</b>	<b>-6</b>	<b>-33.3%</b>
<b>Misc. Crimes Against Society</b>	<b>35</b>	<b>91</b>	<b>56</b>	<b>160%</b>
<b>Total Police Generated Crime</b>	<b>225</b>	<b>350</b>	<b>125</b>	<b>55.6%</b>
<b>TOTAL RECORDED CRIME IN HARTLEPOOL</b>	<b>2598</b>	<b>3025</b>	<b>427</b>	<b>16.4%</b>

**Recorded Crime in Cleveland July – September 2017**

Publicly Reported Crime July 18 - Sept 18										
Crime Category/Type	HARTLEPOOL		REDCAR		MIDDLESBROUGH		STOCKTON		CLEVELAND	
	Crime	Per 1,000 pop	Crime	Per 1,000 pop	Crime	Per 1,000 pop	Crime	Per 1,000 pop	Crime	Per 1,000 pop
<b>Violence against the person</b>	<b>933</b>	<b>10.2</b>	<b>1100</b>	<b>8.2</b>	<b>1870</b>	<b>13.7</b>	<b>1762</b>	<b>9.4</b>	<b>5665</b>	<b>10.3</b>
Homicide	1	0.0	1	0.0	1	0.0	2	0.0	0	0.0
Death or Injury Due to Driving	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Violence with injury	264	2.9	308	2.3	509	3.7	495	2.6	1576	2.9
Violence without injury	351	3.9	416	3.1	755	5.5	609	3.2	2131	3.9
Stalking and Harassment	317	3.5	375	2.8	605	4.4	656	3.5	0	0.0
<b>Sexual Offences</b>	<b>62</b>	<b>0.7</b>	<b>91</b>	<b>0.7</b>	<b>140</b>	<b>1.0</b>	<b>139</b>	<b>0.7</b>	<b>432</b>	<b>0.8</b>
Rape	22	0.2	30	0.2	66	0.5	49	0.3	167	0.3
Other Sexual Offences	40	0.4	61	0.5	74	0.5	90	0.5	265	0.5
<b>Robbery</b>	<b>21</b>	<b>0.2</b>	<b>25</b>	<b>0.2</b>	<b>73</b>	<b>0.5</b>	<b>32</b>	<b>0.2</b>	<b>151</b>	<b>0.3</b>
Business Robbery	1	0.0	6	0.0	1	0.0	3	0.0	11	0.0
Personal Robbery	20	0.2	19	0.1	72	0.5	29	0.2	140	0.3
<b>Acquisitive Crime</b>	<b>1262</b>	<b>13.9</b>	<b>1279</b>	<b>9.5</b>	<b>2200</b>	<b>16.2</b>	<b>1774</b>	<b>9.4</b>	<b>6515</b>	<b>11.9</b>
Burglary - Residential	169	4.2	215	3.6	365	6.4	236	3.0	985	4.2
Burglary – Business and Community	56	0.6	104	0.8	143	1.1	81	0.4	384	0.7
Bicycle Theft	53	0.6	41	0.3	126	0.9	105	0.6	325	0.6
Theft from the Person	23	0.3	19	0.1	54	0.4	36	0.2	132	0.2
Vehicle Crime (Inc Inter.)	151	1.7	232	1.7	298	2.2	287	1.5	968	1.8
Shoplifting	494	5.4	323	2.4	679	5.0	638	3.4	2134	3.9
Other Theft	316	3.5	345	2.6	535	3.9	391	2.1	1587	2.9
<b>Criminal Damage &amp; Arson</b>	<b>397</b>	<b>4.4</b>	<b>521</b>	<b>3.9</b>	<b>812</b>	<b>6.0</b>	<b>581</b>	<b>3.1</b>	<b>2311</b>	<b>4.2</b>
<b>Total</b>	<b>2675</b>	<b>29.4</b>	<b>3016</b>	<b>22.5</b>	<b>5095</b>	<b>37.4</b>	<b>4288</b>	<b>22.8</b>	<b>15074</b>	<b>27.5</b>

Police Generated Offences Jul 18 - Sept 18										
Crime Category/Type	HARTLEPOOL		REDCAR		MIDDLESBROUGH		STOCKTON		CLEVELAND	
	Crime	Per 1,000 pop	Crime	Per 1,000 pop	Crime	Per 1,000 pop	Crime	Per 1,000 pop	Crime	Per 1,000 pop
Public Disorder	187	2.1	182	1.4	397	2.9	315	1.7	1079	2.0
Drug Offences	60	0.7	53	0.4	129	0.9	82	0.4	337	0.6
Trafficking of drugs	21	0.2	8	0.1	25	0.2	22	0.1	67	0.1
Possession/Use of drugs	91	1.0	57	0.4	125	0.9	94	0.5	324	0.6
Possession of Weapons	12	0.1	16	0.1	35	0.3	33	0.2	103	0.2
Misc. Crimes Against Society	91	1.0	57	0.4	125	0.9	94	0.5	324	0.6
Total Police Generated Crime	350	3.8	308	2.3	686	5.0	524	2.8	1843	3.4
TOTAL RECORDED CRIME	3025	33.2	3324	24.8	5781	42.5	4812	25.6	16720	30.4

**Anti-social Behaviour in Hartlepool July – September 2018**

Incident Category	Jul 17 - Sep 17	Jul 18 – Sept 18	Change	% Change
AS21 - Personal	681	493	-188	-27.6%
AS22 - Nuisance	1259	1086	-173	-13.7%
AS23 - Environmental	27	34	7	25.9%
<b>Total</b>	<b>1967</b>	<b>1613</b>	<b>-354</b>	<b>-18%</b>

Incident Category	HARTLEPOOL		REDCAR		MIDDLESBROUGH		STOCKTON		CLEVELAND	
	ASB	Per 1,000 pop	ASB	Per 1,000 pop	ASB	Per 1,000 pop	ASB	Per 1,000 pop	ASB	Per 1,000 pop
AS21 - Personal	493	5.4	501	3.7	729	5.3	702	3.7	2425	4.4
AS22 - Nuisance	1086	11.9	1357	10.1	2175	15.9	2082	11.1	6700	12.2
AS23 - Environmental	34	0.4	45	0.3	61	0.4	55	0.3	195	0.4
<b>Total</b>	<b>1613</b>	<b>17.7</b>	<b>1903</b>	<b>14.2</b>	<b>2965</b>	<b>21.7</b>	<b>2839</b>	<b>15.1</b>	<b>9320</b>	<b>17.0</b>
<b>Quarterly Year on Year Comparison</b>	<b>Reduced by 18%</b>		<b>Reduced by 27.5%</b>		<b>Reduced by 14.2%</b>		<b>Reduced by 12.2%</b>		<b>Reduced by 22.6%</b>	



## **SAFER HARTLEPOOL PARTNERSHIP MINUTES AND DECISION RECORD**

3 August 2018

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

### **Present:**

Councillor: Christopher Akers-Belcher (In the Chair)  
Councillor Jim Lindridge  
Denise Ogden, Director of Regeneration and Neighbourhoods  
Barry Coppinger, Office of Police and Crime Commissioner for Cleveland  
Chief Inspector Nigel Burnell, Chair of Youth Offending Board  
John Bentley, Safe in Tees Valley  
Simon Weastell, Cleveland Fire Authority  
Chris Joynes, Thirteen Group  
Sally Robinson, Director of Children's and Joint Commissioning Services

### **Also Present:**

Rachelle Kipling, Office of Police and Crime Commissioner for Cleveland  
Alison Peavor, was in attendance as substitute for Jean Golightly

Officers: Kate Ainger, Research Officer, Hartlepool Community Safety Team  
Phil Hepburn, Community Safety Operations Manager  
Denise Wimpenny, Principal Democratic Services Officer

## **11. Apologies for Absence**

Apologies for absence were submitted on behalf of Ann Powell, Head of Cleveland Area, National Probation Service, John Graham, Director of Operations, Durham Tees Valley Community Rehabilitation Company, Tony Hanson, Assistant Director, Environment and Neighbourhood Services, Hartlepool Borough Council, Chief Superintendent Alastair Simpson, Cleveland Police and Jean Golightly, Director of Nursing and Quality, NHS Hartlepool and Stockton on Tees CCG.

## **12. Declarations of Interest**

None.

### **13. Minutes of the meeting held on 22 June 2018**

Confirmed.

### **14. Matters Arising from the Minutes**

Minute 9 – Safer Hartlepool Partnership Performance

With regard to the request at the last meeting that a report be submitted to a future meeting outlining the work undertaken with troubled families in Hartlepool and the consequent impact on crime, clarification was sought in terms of the timescales for submission of this report. The Director of Regeneration and Neighbourhoods advised that a report would be presented to the October meeting.

### **15. Prevent Update – Contest Strategy 2018** *(Director of Regeneration and Neighbourhoods)*

#### **Purpose of report**

To update the Partnership following the Government's review of its counter-terrorism strategy.

#### **Issue(s) for consideration**

The Director of Regeneration and Neighbourhoods reported on the background to the Prevent Strategy and statutory duty and responsibilities upon local councils for embedding and co-ordinating Prevent activity in their local area. The 2018 Contest Strategy would be underpinned by the introduction of new legislation that would seek to amend existing terrorism legislation to enable earlier disruption using investigations, longer prison sentences and stronger management of terrorist offenders following their release.

The Counter-Terrorism and Border Security Bill 2017-2019 was currently at the Committee stage in the House of Commons which would introduce legislative changes, details of which were set out in the report. The Partnership was advised that the Local Prevent Operational Group would consider the impact that any legislative changes may have on the delivery of Prevent activity in Hartlepool, the outcome of which would be reported to a future meeting of the Partnership.

#### **Decision**

That the contents of the report, be noted.

## **16. Safer Hartlepool Partnership Performance** *(Director of Regeneration and Neighbourhoods)*

### **Purpose of report**

To provide an overview of Safer Hartlepool Partnership performance for Quarter 1 – April 2018 to June 2018 (inclusive).

### **Issue(s) for consideration**

The report provided an overview of the Partnership's performance during Quarter 1, as set out in an appendix to the report. Information as a comparator with performance in the previous year was also provided. In presenting the report, the Research Officer highlighted salient positive and negative data and responded to queries in relation to crime figures by type.

Partnership Members discussed issues arising from the report. The Chair was pleased to note the decrease in crime figures generally as a comparator with the previous year, referring to reductions in vehicle crime, anti-social behaviour and hate crime incidents. The Police and Crime Commissioner highlighted that an analysis of hate crime incidents was being undertaken which included the Crown Prosecution Service carrying out additional work around prosecutions to identify when hate crime incidents were occurring, the outcome of which would be shared with Partnership Members in due course.

The Chair of the Youth Offending Board commented on the work carried out by the police in relation to problem solving and it was hoped that a sustained reduction in all areas of hate crime would continue and would be reflected in the next reporting period.

The Chair requested that future performance reports should include accumulative totals as well as 6 monthly figures to enable comparators to be made during the various reporting periods.

### **Decision**

- (i) That the Quarter 1 performance figures be noted and comments of Members be noted and actioned as appropriate.
- (ii) That feedback from the analysis of Hate Crime incidents be reported to a future meeting of the Partnership.
- (iii) That future performance reports include accumulative totals as well as 6 monthly figures to enable comparators to be made during the various reporting periods.

## 17. **Integrated Working – Neighbourhood Safety Group Update** *(Director of Regeneration and Neighbourhoods)*

### **Purpose of report**

To receive a progress update in relation to implementation of the integrated place based community safety model agreed by the Finance and Policy Committee in October 2017.

### **Issue(s) for consideration**

The Director of Regeneration and Neighbourhoods presented the report which provided background information to the development of a 'place based integrated service delivery model' between community safety partners in Hartlepool.

Following implementation of the model in February 2018, an interim review of the Hartlepool Integrated Community Safety Model, attached at Appendix 2, had been undertaken which covered the first three months of operation. The review identified that the model had largely been implemented as intended and within the anticipated timescales. A number of benefits had been identified as a result of bringing the teams together, details of which were set out in the report.

The Chair of the Youth Offending Board, who was responsible for leading the new team, provided an update in relation to the benefits of the new working arrangements:-

- Improved problem solving as a result of daily briefings and early identification of risk
- Identifiable efficiencies
- Improved exchange of intelligence as a result of co-location
- Core team benefiting from broader knowledge and expertise
- The Team Around the Individual approach had also improved co-ordination on the ground in relation to managing individuals with complex needs

In the discussion that followed Partnership Members welcomed the report and spoke in support of the initiative. The Police and Crime Commissioner for Cleveland highlighted that Hartlepool was leading the way in terms of integrated working and was keen to share such good practice with other partnership areas.

In response to clarification sought, the Partnership was provided with examples of the positive feedback that had been received from staff in relation to the new working arrangements.

With regard to areas for improvement, it was acknowledged that there was little evidence of any planned joint work or operations in relation to known or emerging vulnerable localities. Emphasis was placed upon the need to improve communication with Elected Members in terms of sharing planned ward activities to enable Members to feed information of this type into community groups and ward surgeries. The importance of effectively publicising the positive work that was ongoing in Hartlepool with the public was highlighted. The various methods of communicating such information were discussed including the option to utilise a low level Members' Seminar or Ward bulletins.

A Member commented on the importance of engaging with young people in schools at an early stage to address any negative behaviours. The issues associated with gaining access to schools were highlighted. The Police and Crime Commissioner advised the Partnership that discussions were ongoing in relation to a pilot around anti-social cycling activities, an update of which would be provided to a future meeting of the Partnership.

In response to comments made regarding the need to promote activity in community hubs, the Partnership was advised that plans were in place to address low turnout in community hubs which included posts being scheduled on social media and a feature to be included in the next round of Hartbeat. Clarification was provided in relation to the role of the Neighbourhood Safety Group in terms of monitoring issues raised by Partnership Members.

Clarification was provided in response to further queries raised in relation to restorative processes and the various interventions to support the social and emotional wellbeing of children and young people.

In concluding the debate the Chair took the opportunity to convey the Partnership's thanks for a comprehensive report and was pleased to note the early benefits for Hartlepool as a result of the new working arrangements.

### **Decision**

That the contents of the report and comments of Members be noted.

## **18. Date and Time of Next Meeting**

The Chair reported that the next meeting would be held on Friday 12 October 2018 at 10.00 am.

The meeting concluded at 10.35 am.

CHAIR