



OVERVIEW AND SCRUTINY COMMITTEE

Thursday 21 January 2021 at 6.30 pm

Virtual via Teams

Agenda

1 Emergency Evacuation Procedure

The Chairman to inform Members of the Public of the emergency evacuation procedure.

2 Apologies for absence

3 Minutes of the meeting held on 19 November 2020

(Pages 3 - 6)

4 Urgent Business

To receive notice of any urgent business which the Chairman considers should be dealt with at the meeting as a matter of urgency by virtue of Section 100B(4)(b) of the Local Government Act 1972.

5 Declarations of Interest

Members to indicate whether they will be declaring any interests under the Code of Conduct.

Members making a declaration of interest at a meeting of a Committee or Council are required to disclose the existence and nature of that interest. This requirement is not discharged by merely declaring a personal interest without further explanation.

PART 'A' ITEMS - MATTERS TO BE DEALT WITH UNDER DELEGATED POWERS OR MATTERS DETERMINED BY COMMITTEE

6 External Audit Annual Fee Letter 2020/21

(Pages 7 - 22)

7 Second Internal Audit and Counter Fraud Progress Reports 2020/21 (Pages 23 - 36)

- 8 **Counter Fraud Framework Update** (Pages 37 - 102)
- 9 **Internal Audit Plan 2021/22 - Consultation** (Pages 103 - 108)
- 10 **Update on the use of RIPA** (Pages 109 - 114)
- 11 **O&S Forward Plan** (Pages 115 - 116)

PART 'B' ITEMS - MATTERS REFERRED TO COUNCIL

- 12 **Treasury Management Statement and Investment Strategy 2021-22** (Pages 117 - 154)
- 13 **Any other business that the Chairman decides is urgent.**

Overview and Scrutiny Committee

Held Virtually via Microsoft Teams
on Thursday 19 November 2020

Present

Councillors Brackstone, Cussons MBE, Garbutt Moore, King, Middleton (Vice-Chairman), Oxley, Raine, Raper (Chairman) and Wass

In Attendance

Will Baines, Jon Bird (Everyone Active), Anton Hodge, John Law, Martin Miles (Everyone Active), Christine Phillipson, Phillip Spurr, Amy Thomas, Jodie Townsend, Margaret Wallace and Louise Wood

Minutes

16 Apologies for absence

There were no apologies for absence.

17 Minutes of the meeting held on 22 October 2020

Decision
That the minutes of the meeting of the Overview and Scrutiny Committee held on 22 nd October be approved and signed by the Chairman as a correct record.

Voting Record

7 For

0 Against

1 Abstention

18 Urgent Business

The Chair raised one item of urgent business in relation to a call in from Overview and Scrutiny Members following the Policy and Resources meeting held on 12th November. Following Deputy Monitoring Officer advice the call in was deemed not valid.

19 Declarations of Interest

Councillor Raine declared a personal non pecuniary but not prejudicial interest in item 6 as Principal of Kirkham Henry Performing Arts Centre.

20 Chair's Announcements

The Chairman made the following announcement:

- Committee Members to suggest to the Chair any items for the Committee to include in the future work plan.

21 **Report of Everyone Active on the 2019 / 2020 Delivery of the Leisure Contract for Ryedale District Council**

Considered – Report of the Director of Economic Development, Business and Partnerships.

Decision

That Members note the report and the Everyone Active 2019/2020 Annual Report.

Voting Record

8 For

0 Against

1 Abstentions

22 **Progress Report on the Implementation of the Climate Change Action Plan and Associated Projects**

Considered – Report of the Considered – Report of the Director of Economic Development, Business and Partnerships.

Decision

That Members note progress on delivery of the Climate Action Plan and future actions to be completed.

Voting Record

9 For

0 Against

0 Abstentions

23 **Treasury Management Mid-Year Review**

Considered – Report of the Chief Finance Officer.

Decision

That

(i) Members receive this report; and

- (ii) The mid-year performance of the in-house managed funds to date is noted.
- (iii) The limit for Term Deposits with Local Authorities under 365 day be increased to £2m.

Voting Record

9 For
0 Against
0 Abstentions

24 **Customer Complaints and Compliments Q2 2020/21**

Considered – Report of the Head of Corporate Governance.

Decision

That Members note the report on the complaints and compliments received up to the end of quarter 2 of the reporting cycle.

Voting Record

9 For
0 Against
0 Abstentions

25 **Decisions from other Committees**

Considered – Minutes of the Policy and Resources Committee held on 12th November.

Decision

That the minutes of the Policy and Resources Committee held on 12th November be noted.

Voting Record

5 For
0 Against
4 Abstentions

26 **Any other business that the Chairman decides is urgent.**

There being no other items of urgent business the meeting closed at 8.30pm.

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The Annual Audit Letter for Ryedale District Council

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Year ended 31 March 2020
12 January 2021



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1. Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Ryedale District Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Overview and Scrutiny Committee as those charged with governance in our Audit Findings (ISA260) Report on 22 October 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality

We determined materiality for the audit of the Council's financial statements to be £400,000 which is 1.8% of the Council's gross revenue expenditure.

Financial Statements opinion

We issued an unqualified opinion on the Council financial statements on 30 November 2020.

We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings including investment properties. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO

Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.

Certificate We certified that we have completed the audit of the financial statements of Ryedale District Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council, both operationally and in preparing the financial statements. Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including remotely accessing working papers and financial systems. In addition, face to face meetings have been replaced by telephone and video conferencing arrangements.

This is our second year of audit at Ryedale District Council and we believe we have continued to develop professional working relationships with you and your officers and have delivered a number of positive outcomes, including:

- regular liaison with senior finance managers and members of the Overview and Scrutiny Committee to understand the issues facing the Council
- understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness

- sharing our insight – we provided regular updates to Overview and Scrutiny Committee covering best practice
- providing training – we provided your teams with training on financial statements and annual reporting.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
January 2021

2. Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £400,000, which is 1.8% of the Council's gross revenue expenditure.

We used this benchmark as, in our view, users of Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration.

We set a lower threshold of £20,000, above which we reported errors to the Overview and Scrutiny Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan Addendum	How we responded to the risk	Findings and conclusions
<p>Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected these circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to essential front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence could be obtained through remote technology • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as land and building assets and the pension fund liability valuations • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. 	<p>On the basis of our work, we concluded that our audit report opinion would be unqualified with an emphasis of matter relating to the material uncertainty around the valuation of land and buildings including investment properties. This change to our opinion was a direct result of the impact of Covid-19. The reporting of a material uncertainty on the valuation of land and buildings is consistent across our other local authority audits.</p>

Audit of the Financial Statements

Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Management over-ride of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determined the criteria for selecting high risk unusual journals tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>There were no issues arising from our work which we needed to bring to your attention.</p>

Audit of the Financial Statements

Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings, including investment properties</p> <p>The Authority re-values its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c£19 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>Update April 2020: The covid-19 pandemic has resulted in the volatility of financial and property markets. This will increase the uncertainty of assumptions applied by management to asset valuations.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work, we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert discussed with the valuer the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Authority's asset register evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these were not materially different to current value at year end considered, where the valuation date was not 31 March 2020 for assets valued in year, the arrangements management had used to ensure the valuation remains materially appropriate at 31 March 2020. 	<p>Our audit work did not identify any issues in respect of the valuation of land and buildings except for the following matter:</p> <p>The Council uses a RICS qualified valuation specialist for land and building valuations including investment properties. The valuation reports by this valuation specialist included a material valuation uncertainty paragraph for land and buildings valuations as a result of Covid-19 . We considered it appropriate to include an emphasis of matter in our audit opinion relating to this material uncertainty. It is important to note that this was a national issue, applying to local authorities with material land and building asset bases</p>

Audit of the Financial Statements

Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (c£15.7m in the Authority's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our work, we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtained assurances from the auditor of the North Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>Our audit work did not identify any issues in respect of the valuation of pension fund net liability.</p>

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Audit of the Financial Statements

Audit opinion

We issued an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements

The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the accounts preparation and audit process. Restrictions for non-essential travel meant both Council and audit staff had to work remotely, including remotely accessing working papers and financial systems. In addition, face to face meetings were replaced by telephone and video conferencing arrangements.

The Council presented us with draft financial statements in accordance with the agreed deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit despite the challenges arising from Covid-19.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Overview and Scrutiny Committee on 22 October 2020.

We identified some misclassification and disclosure issues during the audit which were all corrected in the final set of financial statements.

It is important to note that none of the amendments had any impact on the level of useable reserves of the Council.

Annual Governance Statement and Narrative Report

We were also required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website alongside the final Statement of Accounts.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Ryedale District Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

3. Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in October 2020, we agreed one recommendation to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – October 2020)
<p>Embedding risk management and financial monitoring arrangements to support informed decision making</p> <p>In 2018-19, our work identified that risk management and governance arrangements were not sufficiently embedded and as a result, we issued an ‘except for’ qualified VFM conclusion in relation to ‘informed decision making’ VFM criteria.</p> <p>Whilst positive progress had been made to the Council’s arrangements in these areas during 2018-19, following the recognition of the issues by the new Senior Management Team, the revised arrangements had not been in place for the duration of 2018-19 and were therefore not embedded.</p> <p>We noted in our 2018-19 Annual Audit Letter that embedding the enhanced arrangements for risk management, financial monitoring and governance continued to be key priorities for the Council in order to support informed decision making in 2019-20 and beyond.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> reviewed governance and risk management arrangements and internal monitoring processes in place at the Council continued to meet with senior management on a regular basis to discuss the progress the Council is making around risk management and financial monitoring, for example, reviewing the reporting of the Council’s performance against its budget and any level of variances examined how the Council is addressing our 2018-19 audit recommendations on embedding risk management and monitoring arrangements to support informed decision making observed the discussion and level of challenge on governance and risk management issues which take place at the Overview and Scrutiny Committee reviewed the timeliness of financial reporting of the Council’s financial performance to relevant committees. 	<p>Our focus in this area was around arrangements in place to embed risk management and monitoring arrangements to secure economy, efficiency and effectiveness in Council’s use of resources. Our findings were as follows:</p> <ul style="list-style-type: none"> The Council’s performance against the budget is now a standing agenda item at both Policy and Resources Committee (PRC) and Overview and Scrutiny Committee (OSC) meetings . It covers the budget, the actuals to that quarter, variations to budget, reasons for the variations and final predicted forecast for the year. It also covers the savings against the plan. The Council’s performance against the capital programme is also reported in the same report to relevant committees covering the budget against the actual and reasons for any variations. The outturn for the year is reported to the Council and relevant Committees covering the annual budget against the variations with detail commentaries for variations and associated actions. As noted in our 2018-19 Audit Finding Report, a Strategic Risk Register (SRR) was formulated, introduced and reported to the Audit and Scrutiny Committee in January 2019. Our work in 2019-20 identified that an updated risk register is also a standard item in Committee Reporting. This work has been recognised and endorsed by Members who see it as an important part of the Council’s risk management and improvement strategy. The updating of the SRR during 2019-20 has demonstrated the Council’s improvement journey, showing how risks are being managed and mitigated over that period. However, risk management is an ongoing process, and management are aware that the SRR is a live document that needs to be routinely reviewed, updated and reported to those charged with governance.

Value for Money conclusion

Value for Money Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – October 2020)
<p>Embedding risk management and financial monitoring arrangements to support informed decision making – continued</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 19</p>	<p>See page 12</p>	<ul style="list-style-type: none"> • Our reviews indicated that the SRR covers detail description of the actual risk, risk owner, causes of risks, consequences if it materialises, proactive and reactive controls and mitigation actions required. • Covid -19 response: The Council was pro-active in terms of its Covid-19 response and its first report to Policy and Resources Committee was made on 19 March 2020, just prior to the national lockdown. The report outlined the approach to service delivery during Covid-19, noted the delegated powers held by the Chief Executive which can be used in an emergency, and recommended that Council's endorsement of a budget of £250,000 being made available from general fund reserves to support the responses immediately. This is also an indication of how the Authority has progressed embedding risk management and financial monitoring arrangements to support informed decision making and responding to key risks facing the Council. <p>Conclusion:</p> <p>We concluded that the Council has proper arrangements in place for embedding risk management and financial monitoring arrangements to support informed decision making.</p> <p>Our overall conclusion on VFM is reported at page 11.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and the provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings (ISA260) Report	October 2020
Annual Audit Letter	January 2021

Fees 2019-20

	Planned fees £	Actual fees £	2018-19 Actual fees £	2017-18 Actual fees KPMG £
PSAA scale fee	32,206	32,206	32,206	41,826
Audit fee variations * (see page 15)	12,500	19,500	11,500	-
Total proposed fees	44,706	51,706	43,706	41,826

* Audit fee variations

As outlined in our Audit Plan, the 2019-20 scale fee published by PSAA of £32,206 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. This was reported in our Audit Plan dated 24 January 2020 and has been updated to reflect the actual outturn on completion of our audit.

Audit fee variation – continued

Our Audit Plan included a fee variation for £12,500 to take into account the additional audit work to be performed in relation to PPE, pensions and key areas of estimate and judgement. Over the past ten months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019-20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values and the Council's proportion of investment properties from the South Yorkshire Pension Fund.
- Value for Money arrangements criteria – we have been required to consider the VFM arrangements of audited bodies. There is more emphases on VFM work now and this has increased the amount of work that we need to undertake on VFM criteria necessitating enhanced and more detailed reporting in our ISA260. Our work on embedding risk management and financial monitoring arrangements to support informed decision making as a significant VFM risk (reported at pages 12-13) included a considerable amount of additional work than originally planned, including presentations to our national VFM panel, before we reached our conclusion.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines also being extended by 4 months and NHS deadlines by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

As a result of the above, increased costs have been incurred due to the additional time taken to deliver the audit this year. We have discussed the likelihood of an additional fee variation with the S151 Officer, noting an expected variation of c15% or £7,000 of the above planned fee, taking the proposed fee to £51,706.

Please note that all proposed additional fee variations are subject to approval by PSAA in line with the Terms of Appointment.

A. Reports issued and fees - continued

Non-audit fees for other services	Fee £
Audit Related Services:	
Housing Benefit Subsidy return 2019-20 *	11,500 [TBC work ongoing]
Non-Audit Related Services:	
Chief Finance Officer Insights and Place Analytics subscription	3,840 (ongoing service)

NOTE:

* The £11,500 is the base fee for Housing Benefit Subsidy certification. For each 40+ testing workbook undertaken:
 £2,200 – where the work is completed by the Council and re-performed by Grant Thornton
 £4,400 – where the work is undertaken by Grant Thornton

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table alongside summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council’s auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council’s policy on the allotment of non-audit work to your auditor.



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REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	21 JANUARY 2021
REPORT OF THE:	CHIEF FINANCE OFFICER (s151) ANTON HODGE
TITLE OF REPORT:	INTERNAL AUDIT AND COUNTER FRAUD PROGRESS REPORT 2020/21
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The report provides an update on internal audit and counter fraud work delivered in 2020/21.

2.0 RECOMMENDATION

- 2.1 It is recommended the Committee note the work undertaken by internal audit and the counter fraud team in the year to date.

3.0 REASON FOR RECOMMENDATION

- 3.1 To enable the Committee to fulfil its responsibility for considering the outcome of internal audit and counter fraud work.

4.0 SIGNIFICANT RISKS

- 4.1 The Council will fail to comply with proper practice requirements for internal audit and the Council's Audit Charter if the results of audit work are not considered by an appropriate committee. Overview and Scrutiny Committee is the committee designated with responsibility for receiving internal audit reports at Ryedale District Council.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 The work on internal audit and counter fraud supports the council's overall aims and priorities by promoting probity, integrity and honesty and by helping support the council to become a more effective organisation.
- 5.2 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS) and Cipfa guidance on the application of those standards in Local Government. In accordance with the standards, the Head of Internal Audit is required to report on the results of audit work undertaken to the Committee.

6.0 REPORT DETAILS

- 6.1 Since the last committee meeting in October 2020 five audits have commenced, a draft report from the 2019/20 plan has been issued and two audits have been deferred to 2021/22. Further information on internal audit progress is included in Annex 1.
- 6.2 As the Committee is aware, commencement of 2020/21 internal audit work was significantly delayed due to the coronavirus pandemic. Routine work was suspended during the initial national lockdown, with audit resources diverted to providing guidance on fraud risks and supplier relief, and other ad-hoc support and advice. This meant that it was not until October 2020 that we were able to bring a high level internal audit plan to the Committee for approval.
- 6.3 Since October we have been working with officers to finalise the details of audit work to be completed during the year. However, ongoing pressures placed on officers as a result of Covid-19 have made it difficult for them to fully engage with the audit process. This will continue to be the case well into 2021/22.
- 6.4 We have agreed a schedule for completing all audit work in the plan through to the end of the financial year, and have allocated resource to deliver this work. However, there is limited flexibility in the schedule.
- 6.5 Strategic Management Board will support delivery of internal audit work as far as they are able during the remainder of 2020/21 but it is recognised that, given the response to the coronavirus and recovery efforts, it is likely that the number of audits and timelines for completion of work will slip further. They also recognise that the annual internal audit opinion can only take account of work completed, and that in the event that work slips further there will be a limitation on the scope of the internal audit opinion for 2020/21. We have therefore agreed with officers that work to be carried out during the remainder of 2020/21 will be targeted towards higher priority areas. The internal audit plan for 2021/22 will also take account of any outstanding priorities or work deferred from 2020/21.
- 6.6 Counter fraud work has been affected by the Covid-19 pandemic, in terms of new types of work and its effect on ongoing investigations. Annex 2 provides details of Covid-19 related work as well as a summary of the work undertaken so far in 2020/21 and outcomes to date.

7.0 IMPLICATIONS

- 7.1 The following implications have been identified:
- a) Financial
None
 - b) Legal
None
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental and Climate Change, Crime & Disorder)
None

Anton Hodge
Chief Finance Officer (s151)

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Background Papers:

2020/21 Internal Audit and Counter Fraud Plans

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Ryedale District Council
Internal Audit Progress Report
Period to 11 January 2021

Audit Manager: Connor Munro
Head of Internal Audit: Max Thomas

Circulation List: Members of the Overview and Scrutiny Committee
Chief Finance Officer (s151)

Date: 21 January 2021



Background

- 1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and the Public Sector Internal Audit Standards (PSIAS). In accordance with the PSIAS, the Head of Internal Audit is required to report progress against the internal audit plan agreed by the Overview and Scrutiny Committee and to identify any emerging issues which need to be brought to the attention of the Committee.
- 2 Members of the Committee approved the internal audit plan for 2020/21 at their meeting on the 22 October 2020. This report summarises the progress made to date in delivering the agreed programme of work.
- 3 This is the first internal audit progress report to be received by the Overview and Scrutiny Committee in 2020/21.

Internal Audit work completed

- 4 Since the last committee meeting in October 2020 five audits have commenced. A draft report has also been issued following the Operational Policies review which was included in the 2019/20 plan. Two audits have been deferred to 2021/22, as follows:
 1. **ICT:** it was agreed with senior management that audit resource would be best utilised in 2021/22 after the council has implemented Office 365. A possible area of focus has been suggested as the council's investment strategy.
 2. **Environmental Health:** the service has been operating in a very demanding environment due to the pressures of the coronavirus pandemic and the EU transition. It was agreed with senior management that the audit be rescheduled to 2021/22 in light of this.
- 5 We are currently in discussion with management as to how to best reallocate the days set aside for these audit areas. It is likely that they will be used to fund the work of internal audit in delivering the business grant scheme post payment assurance work alongside Veritau's counter fraud team and to also allow additional work to be undertaken on a small number of key audits in the plan, for example on Waste & Street Scene.
- 6 2020 proved to be a year of unprecedented challenge for the council. During this time it has had to prioritise its resources on disaster response and recovery efforts, and this is expected continue well into 2021. As the Committee is aware, commencement of 2020/21 internal audit work was significantly delayed due to the need for the council to prioritise its response to the coronavirus pandemic. Routine work was suspended during the initial national lockdown, with audit resource diverted to providing guidance on fraud risks and supplier relief, and other ad-hoc support and advice.
- 7 Since the internal audit plan was approved in October 2020, we have been working with officers to finalise the details of audit work to be completed during the year. However, pressures placed on officers as a result of Covid-19 have made it difficult for them to fully engage with the audit process. This will continue to be the case well into 2021/22.

- 8 A schedule for completing all audit work in the plan through to the end of the financial year has been agreed. We have also allocated audit resource to deliver this work. However, there is limited flexibility in this schedule.
- 9 Strategic Management Board recognise that, given the response to the coronavirus and recovery efforts, it is likely that the number of audits and timelines for completion of work will slip further.
- 10 Further information, including on those audits which are yet to be started at the time of this report, is included in Appendix A.
- 11 Please note that while the table at Appendix A lists all planned audits (as per the 2020/21 plan agreed in October 2020) each of these audits may be impacted by the Council's need to prioritise its response and recovery efforts. It is also possible that some of the audits included in the plan may be replaced by other priority areas of work. For example, this could include the Council's Covid-19 financial tracker or a review of the effectiveness of the constitution (particularly emergency power provisions and the decision-making process). Any new work will be subject to consultation and agreement through the client liaison arrangements, with progress and outcomes reported to this Committee.

Wider Internal Audit work

- 12 In addition to undertaking assurance reviews, Veritau officers are involved in a number of other areas relevant to corporate matters:
 - **Support to the Overview and Scrutiny Committee;** this is mainly ongoing through our attendance at meetings of the Committee and the provision of advice, guidance and training to members as required.
 - **Ongoing support to management and officers;** we meet regularly with management to identify emerging issues and provide advice on a range of specific business and internal control issues. These relationships help to provide 'real time' feedback on areas of importance to the council.
 - **Risk Management;** Veritau provides support and advice on the council's risk management arrangements and processes.
 - **Investigations;** We perform special or ad-hoc reviews or investigations into specific issues.
 - **Follow up of previous audit recommendations;** it is important that agreed actions are regularly and formally followed up. This helps to provide assurance to management and members that control weaknesses have been properly addressed. We have followed up agreed actions either as part of our ongoing audit work, or by separate review. We currently have no matters to report as a result of our follow-up work.

Table of audit assignments to 11 January 2021

Audit	Status	Assurance level (if completed) / Planned start date (if not started)	Audit Committee
2020/21			
Strategic risks			
Health & Safety	Not started	February	
Information Governance	Not started	March	
ICT	Deferred	-	
Contract Management and Procurement	Not started	March	
Fundamental / material systems			
Payroll	In progress	-	
Creditors	Not started	March	
Debtors	Not started	February	
Main Accounting System	Not started	January	
Operational / regularity			
Waste & Street Scene	In progress	-	
Risk Management	In progress	-	
Local Code of Corporate Governance	In progress	-	
Environmental Health	Deferred	-	
Technical / projects			
Insurance	In progress	-	
Covid-19 response			
Risk assessments; general support and advice	Completed	N/A	October 2020
Follow-ups			
	Ongoing	-	
2019/20			
Operational Policies Review	Draft report	-	



Ryedale District Council
Counter Fraud Progress Report
Period to 31 December 2020

Assistant Director – Corporate Fraud: Jonathan Dodsworth
Head of Internal Audit: Max Thomas

Circulation List: Members of the Overview and Scrutiny Committee
Chief Finance Officer (s151)

Date: 21 January 2021



Background

- 1 Fraud is significant risk to the public sector. Annual losses are estimated to exceed £40 billion in the United Kingdom.
- 2 Councils are encouraged to prevent, detect and deter fraud in order to safeguard public finances.
- 3 Veritau are engaged to deliver a corporate counter fraud service for Ryedale District Council. A counter fraud service aims to prevent, detect and deter fraud and related criminality affecting an organisation. Veritau deliver counter fraud services to the majority of councils in the North Yorkshire area as well as local housing associations and other public sector bodies.

Covid-19 Grant Fraud

- 4 The Covid-19 pandemic has created a number of issues, and unplanned work, for the counter fraud team. New procedures have had to be implemented to replace activities which involved face to face contact with the public, e.g. interviews under caution and visits to properties. While normal areas of work for the team have been hampered, new work has emerged relating to Covid-19 grants. The Council has paid over £26 million to local businesses on behalf of central government to support them during the crisis. These grants have been the focus of fraudulent applications by organised criminal gangs.
- 5 The counter fraud team has supported the Council through investigations of suspected fraudulent Covid-19 grant applications. Two investigations have been completed to date and £30k of payments have been prevented. The team is also sharing intelligence with regional partners and national organisations such as the National Investigation Service (NATIS) and the National Anti-Fraud Network (NAFN). This work has helped prevent public money from falling into the hands of criminals.

Counter Fraud Performance 2020/21

- 6 Up to 31 December, the fraud team detected £11.5k of loss to the council and achieved £16.8k in savings for the council. There are currently 14 ongoing investigations. A summary of counter fraud activity is included in the tables below.

COUNTER FRAUD ACTIVITY 2020/21

The tables below shows the total number of fraud referrals received and summarises the outcomes of investigations completed during the year to date.

	2020/21 (As at 31/12/20)	2020/21 (Target: Full Year)	2019/20 (Full Year)
% of investigations completed which result in a successful outcome (for example benefit stopped or amended, sanctions, prosecutions).	67%	30%	55%
Amount of actual savings (quantifiable savings - e.g. CTS) identified through fraud investigation.	£16,822	£20,000	£32,641
Amount of savings from the prevention of Covid-19 grant fraud (to be returned to Central Government).	£30,000	n/a	n/a

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Caseload figures for the period are:

	2020/21 (As at 31/12/20)	2019/20 (Full Year)
Carried forward at start of financial year	63	75
Referrals received	34	41
Referrals rejected ¹	39	32
Number of investigations completed	9	21
Active cases and awaiting investigation ²	49	63

¹ This figure represents new referrals rejected and previously accepted cases that have been removed from backlog

² As at 15/12/19 and 31/3/19 respectively.

Summary of counter fraud activity:

Activity	Work completed or in progress
Data matching	<p>The 2020/21 National Fraud Initiative (NFI) is underway. The counter fraud team has assisted the Council to send a range of data to the Cabinet Office for datamatching. The team has reviewed privacy notices to ensure that the Council meets its obligations around the use of this data. Results of the exercise are expected to be released by the Government from February 2021 onwards.</p> <p>The NFI will also conduct data matching exercises on Covid-19 grant payments to detect fraud and error.</p>
Fraud detection and investigation	<p>The service continues to use criminal investigation techniques and standards to respond to any fraud perpetrated against the council. Activity to date includes the following:</p> <ul style="list-style-type: none"><li data-bbox="434 906 2013 1034">• Covid-19 Grants – Three applications for Covid-19 grants have been investigated. Two were blocked before payment was made and one payment was recalled when fraud was found. There is one ongoing investigation.<li data-bbox="434 1058 2013 1225">• Council Tax Support fraud – To date the team has received 21 referrals for possible CTS fraud and £11.1k of savings has been identified through fraud investigation in the current financial year. One person was formally cautioned for an offence in this area. There are currently nine cases under investigation.<li data-bbox="434 1249 2013 1327">• Council Tax fraud – Eight referrals for council tax fraud have been received in 2020/21. There are currently two cases under investigation.

Activity	Work completed or in progress
	<ul style="list-style-type: none"> • NNDR fraud – One referral for potential NNDR fraud has been received to date and there are two ongoing investigations. • Internal fraud – There have been no reports of internal fraud against the council this year.
Fraud liaison	<p>The fraud team acts as a single point of contact for the Department for Work and Pensions for fraud issues and is responsible for providing data to support their housing benefit investigations. The DWP's fraud investigation service was assigned to other duties due to the pandemic and no requests for information have been received to date.</p>
Fraud Management	<p>In 2020/21 a range of activity has been undertaken to support the Council's counter fraud framework.</p> <ul style="list-style-type: none"> • The counter fraud team alerts council departments to emerging local and national threats through a monthly bulletin and specific alerts over the course of the year. • Throughout the Covid-19 pandemic, the counter fraud team have provided support to the council in preparing for and administering government funded grant schemes. This has included reviewing government guidance and advising on best practice. • In May, the Council's counter fraud transparency data was updated to include data on counter fraud performance in 2019/20, meeting the Council's obligation under the Local Government Transparency Code 2015. • The Council participated in the annual CIPFA Counter Fraud and Corruption Tracker (CFaCT) survey in September 2020. The information will contribute to a CIPFA national report detailing the extent fraud against local authorities.

Activity	Work completed or in progress
	<ul style="list-style-type: none"><li data-bbox="483 256 2011 379">• In October, the counter fraud team ran a cybercrime awareness week, delivering cybercrime awareness information to council employees through a number of bulletins provided over the course of the week.<li data-bbox="483 419 2011 499">• In November, the counter fraud team raised awareness of fraud internally and amongst the general public as part of International Fraud Week.



REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	21 January 2021
REPORT OF THE:	SECTION 151 OFFICER (ANTON HODGE)
TITLE OF REPORT:	COUNTER FRAUD FRAMEWORK UPDATE
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The council approved a counter fraud and corruption policy and strategy in 2016. The strategy was written to run up to 2020 in line with national guidance. This report introduces a refreshed counter fraud and corruption strategy based on updated national guidance and updates the Council's counter fraud and corruption policy.
- 1.2 The report also presents the council's annual fraud risk assessment for review by the committee.

2.0 RECOMMENDATION(S)

- 2.1 Members are asked to
- approve the new counter fraud and corruption strategy;
 - comment on the updated counter fraud and corruption policy; and
 - comment on and note the analysis of current fraud risks faced by the council.

3.0 REASON FOR RECOMMENDATION(S)

- 3.1 To help ensure the council maintains robust counter fraud arrangements.

4.0 SIGNIFICANT RISKS

- 4.1 The risk of fraud against public bodies is growing. It is essential that the council maintains up to date counter fraud arrangements to minimise financial losses and safeguard public money.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 Seeking to minimise losses to fraud helps to ensure that resources are directed to delivering services and supports the achievement of overall council aims.

6.0 BACKGROUND

- 6.1 Fraud is a serious risk to the public sector in the UK. When fraud is committed against the public sector, money is diverted from vital public services into the hands of criminals. Fraudsters are constantly refining their tactics and techniques in order to circumvent the

checks and controls put in place to prevent fraud from occurring. In order to protect income and assets public sector bodies must therefore continuously develop their counter fraud measures to meet the evolving threats.

6.2 One in every three crimes committed in the UK is categorised as fraud.¹ The most recent estimate of the cost of fraud against local authorities is up to £7.8 billion annually.²

7.0 NATIONAL PICTURE

7.1 As part of the government's response to the Covid-19 pandemic local authorities have been responsible for issuing grants to eligible businesses. The initial schemes closed in August 2020 with £11.7 billion being paid out to small and medium sized business across the UK.³ Fraudsters attempted to divert grants from legitimate businesses, and ineligible businesses have attempted to mislead councils about their circumstances in order to receive grants. Further support schemes have been introduced to support both businesses and residents and these have also been the subject to fraud. All councils responsible for administering grants and other forms of government support are undertaking post assurance work to ensure that they were correctly paid. If fraud or error is detected then a recovery process will begin that can include the prosecution of offenders.

7.2 Cyber-crime is a growing concern for local government in the UK. A council in the North East suffered a catastrophic cyber-attack in 2020. The ransomware attack removed access to multiple systems across the council and criminals tried to extort money from the council to restore them. It took many months before the council was able to fully restore systems for staff and residents. In 2019 Kaspersky reported a 60% increase in ransomware attacks on local governments worldwide and pointed towards similar attacks in the United States.⁴ It is important that all councils make members of staff aware of cybercrime and what precautions to take in order to prevent it.

7.3 The most recent analysis of fraud against local authorities from CIPFA is the 2019 Annual Fraud and Corruption tracker. The report details levels of fraud detected by local authorities in 2018/19. Key findings of the report include the following:

- The largest area of loss for local authorities is in council tax related discounts, e.g. single occupancy discount and council tax support. The amount of fraud detected has risen by over £5m since 2016/17 to £30.6m.
- Procurement fraud is an area seen as being a high risk for local authorities. Fraud can take place at any point in the supply chain of goods and services making it difficult to detect. CIPFA reports that 12% of procurement fraud cases detected involved insider fraud and 5% involved serious and organised fraud.

7.4 Post assurance checks on Covid-19 grants will take place in 2021 and additional checks will be made as part of the upcoming 2020/21 National Fraud Initiative. Cyber-crime awareness will form part of all fraud awareness training delivered at the council. The areas highlighted by the CIPFA report are all areas of focus for the counter fraud team.

8.0 LOCAL PICTURE

8.1 As part of the Small Business Grant Fund, Retail Hotel and Leisure Grant Fund and the Local Authority Discretionary Fund the Council has processed over 2100 applications,

¹ Economic Crime Plan 2019-23, HM Government

² Annual Fraud Indicator 2017, Crowe Clark Whitehill

³ www.gov.uk/government/publications/coronavirus-grant-funding-local-authority-payments-to-small-and-medium-businesses

⁴ Story of the Year 2019 – Cities under Ransomware Siege, Kaspersky

resulting in payments totalling more than £26 million. Council officers conducted checks into each application to make sure they met the criteria set by government and the payments were being made to the correct people. Where concerns were identified cases have been directed to the counter fraud team.

- 8.2 The council is sending monthly reports detailing payments to the Department for Business, Energy & Industrial Strategy (BEIS) and has produced a risk assessment for the Covid-19 grant schemes detailing what steps have been taken to mitigate fraud risks.
- 8.3 The team has been liaising with the National Investigation Service (NATIS), the National Anti-Fraud Network (NAFN), and the Department for Business, Energy & Industrial Strategy to report fraudulent applications by organised criminals, as well as sharing intelligence with council colleagues.
- 8.4 The routine work of the counter fraud team has been disrupted by the Covid-19 pandemic, however, this work is now restarting. Activities like visits to people's homes and interviews under caution in council offices are still affected, but the team are finding new ways to undertake this work.

9.0 COUNTER FRAUD FRAMEWORK

- 9.1 The council's Counter Fraud and Corruption Strategy 2016-19 was approved in July 2016, and covered the period of the national counter fraud strategy for local government, Fighting Fraud and Corruption Locally. The national strategy is refreshed periodically and has the support of counter fraud professionals, the Local Government Association, and HM Government. The most recent iteration, Fighting Fraud and Corruption Locally – A Strategy for the 2020s (see Appendix 1) was published in April 2020.
- 9.2 An updated Counter Fraud and Corruption Strategy for 2020-23 (see Appendix 2) has been drafted and the committee is asked to approve it. The strategy takes into account the new Fighting Fraud & Corruption Locally guidance.
- 9.3 As part of this review the Council's fraud risk assessment was also reviewed. The updated risk assessment is included at Appendix 3.
- 9.4 On 31 December 2020, guidance from the Attorney General on disclosure in criminal prosecutions came into force. The new guidance seeks to ensure that all relevant evidence is disclosed to the defence ahead of a criminal prosecution, and that there is an opportunity for discussion between the defence and prosecutor after an interview under caution up to commencement of any proceedings. This guidance resulted in a relatively minor update to the Council's Counter Fraud and Corruption Policy which is contained in Appendix 4, see section 2.36 in Annex A of the policy. This refreshed version also reflects changes and updates to job titles at the Council and within Veritau.

10.0 IMPLICATIONS

- 10.1 The following implications have been identified:
 - a) Financial
None
 - b) Legal
None
 - c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental and Climate Change, Crime & Disorder)
None

Anton Hodge
Chief Finance Officer (s151 officer)

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Background Papers:

- None

Appendices:

Appendix 1: Fighting Fraud and Corruption Locally – A Strategy for the 2020s
Appendix 2: Counter Fraud and Corruption Strategy 2020-23
Appendix 3: Fraud Risk Assessment 2021
Appendix 4: Counter Fraud and Corruption Policy (updated)

Fighting Fraud and Corruption Locally

A strategy for the 2020s

A response to economic crime and fraud



With support from:



This is the third Fighting Fraud and Corruption Locally Strategy, produced by local government for local government.

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Joint Fraud Taskforce

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Appendix 1 & Appendix 2

Foreword

— Richard Watts



Since the first strategy was produced in 2011 councils have faced significant financial challenges. Councils have innovated, collaborated and prioritised in order to meet the financial challenge and to protect front line services. Tackling the threat of fraud and corruption has been and continues to be a cornerstone of protecting council finances and enabling them to maximise the value of every pound spent on behalf of local residents.

Every pound siphoned off by a fraudster is a pound that cannot be spent on services where they are needed. Councils need to be vigilant. Councils have a good record in countering fraud and the strategy contains numerous case studies and examples of successes.

As the strategy highlights, it is estimated that about one in three of all crimes committed nationally is fraud based and fraudsters are always seeking new ways to take money. The strategy also highlights that potential losses to fraud could run into hundreds of millions or even billions of pounds if preventative action is not

taken. Councils need to be agile and work together with national agencies and the Government to respond to new fraud threats, to prevent losses and to protect vulnerable people in our society. Collaboration to counter and prevent fraud is a theme running through the strategy.

The Fighting Fraud and Corruption Locally Strategy is an excellent example of how councils can come together for the overall benefit of local services and residents served. The strategy has been led by the Fighting Fraud and Corruption Locally Board. This Board has been described as “a coalition of the willing”. It is a group of senior multi-disciplinary experts from councils working together with partners, that work with the councils on counter fraud activities. The Board is currently chaired by a representative from the Society of Local Authority Chief Executives (SOLACE). The Board members and the organisations they come from all provide their expertise on a pro bono basis, for the benefit of the sector and to help counter fraud. The board is supported by the LGA. In carrying out the research to draft this new strategy, the board has run several workshops up and down the country that have been attended by representatives from more than 250 councils. The work of all these people is reflected in the strategy and our thanks are due to all of them.

The strategy outlines, outlines a governance framework for continuing national and regional collaboration on counter fraud under the Fighting Fraud and Corruption Locally umbrella. Section four of the strategy outlines a practical programme and checklist for individual councils to follow.

I am happy to endorse this strategy on behalf of the LGA and welcome it as an opportunity for councils to review and further improve their counter fraud work in the 2020s.

Cllr Richard Watts
Chair Resources Board, Local
Government Association
Leader Islington Council

Foreword

— Mike Haley



As the Chair of the Joint Fraud Taskforce I am delighted to support The Fighting Fraud and Corruption Locally 2020 strategy at a time when incidences of fraud and corruption are rising and there is an identified need for councils and their leaders to adopt a robust response.

Having worked as a fraud investigator I understand the importance of collaborative working and of having a structure and framework that guides and governs counter fraud and associated corruption activities.

Through working together and applying the principles of this strategy I am convinced that, perhaps for the first time, we have a model for true collaboration that is so important in identifying fraudsters, often organised groups, who seek to undermine and take financial advantage of systemic vulnerabilities and abuse those citizens in our community who are in themselves vulnerable.

I recognise the challenge that we all face in having to balance demands on resource across essential services at a time when funding is constrained. However, I also recognise the important role that local authorities and their frontline services play in tackling fraud and corruption that are a drain on those resources. Savings through enforcement and bringing fraudsters to justice can be used to support our social services and can build stronger and safer communities.

I am convinced that this strategy is an important step in tackling fraud and corruption that is so corrosive to society. In my role as Chair of the Joint Fraud Taskforce I welcome my local authority colleagues. By working together, I am convinced that we can deliver a step change in tackling fraud.

Mike Haley

Chair of the Joint Fraud Taskforce

The Joint Fraud Taskforce is a partnership between banks, law enforcement and government to deal with economic crime.

Executive Summary

Fighting Fraud and Corruption Locally 2020 is the updated counter fraud and corruption strategy for local government. It provides a blueprint for a coordinated response to fraud and corruption perpetrated against local authorities with the support of those at the top.

By using this strategy local authorities will:

- *develop and maintain a culture in which fraud and corruption are unacceptable*
- *understand the harm that fraud can do in the community*
- *understand their fraud risk*
- *prevent fraud more effectively*
- *use technology to improve their response*
- *share information and resources more effectively*
- *better detect fraud loss*
- *bring fraudsters to account more quickly and efficiently*
- *improve the recovery of losses*
- *protect those at risk.*

This strategy is aimed at council leaders, chief executives, finance directors and all those charged with governance in local authorities including those on audit committees and with portfolio responsibility. It is produced as part of the Fighting Fraud and Corruption Locally initiative, a partnership between local authorities and key stakeholders, and succeeds the previous strategies written in 2011 and 2016. It is not 'owned' by any one organisation but by the local authorities who have given time and support to develop it. Areas of focus for elected members, chief executives and those charged with governance are laid out in Section 4: The Local Response.

This partnership has been so successful it has existed since 2010 when the research and engagement first began.

Local authorities continue to face a significant fraud challenge and while the official figures are dated the argument about protecting funds and vulnerable people remains. The National Fraud Authority estimated local authorities face the threat of £2.1bn fraud in a year in 2013. In fact, the Annual Fraud Indicator produced by Crowe Clark Whitehill estimates that figure may be as high as £7.8bn in 2017, out of a total of £40.4bn for the public sector as a whole. The Government's Economic Crime Plan states that the numbers of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.

Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage and the repercussions maybe far reaching.

Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tough stance supported by elected members, chief executives and those charged with governance. This includes tackling cross-boundary and organised fraud and corruption attempts, as well as addressing new risks such as social care fraud and cyber issues.

In addition to the scale of losses and potential losses, there are further challenges arising from changes in the wider public sector landscape including budget reductions, service remodelling and integration, and government policy changes. Local authorities report that they are still encountering barriers to tackling fraud effectively, including lack of incentives, data sharing, information sharing and powers, but also that they require support from senior stakeholders and those in charge of governance.

These factors do present challenges. However, this strategy demonstrates the tenacity of local fraud teams in continuing to lead on innovation and collaborate and also that there is a network of local leaders willing to support this initiative. This strategy, then, is about creating a self-sustaining counter fraud response for the sector.

Review of 2016 Fighting Fraud and Corruption Locally Strategy

The previous two strategies focused upon pillars of activity that summarised the areas local authorities should concentrate efforts on. These were 'acknowledge', 'prevent' and 'pursue'.

These pillars are still applicable. During the research for this strategy they were supported as key areas by those who have input. However, another two areas of activity have emerged that underpin tenets of those pillars. These are 'govern' and 'protect'.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies.

Govern

Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation. Having a holistic approach to tackling fraud is part of good governance.

Acknowledge

Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

Prevent

Preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

Pursue

Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive local enforcement response.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat and protect themselves and the community.

The second new area that has appeared during the research recognises the increased risks to victims and the local community:

Protect

Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cybercrime and also protecting itself from future frauds.



GOVERN

Having robust arrangements and executive support to ensure anti-fraud, bribery and corruption measures are embedded throughout the organisation.



ACKNOWLEDGE

*Accessing and understanding fraud risks.
Committing the right support and tackling fraud and corruption.
Demonstrating that it has a robust anti-fraud response.
Communicating the risks to those charged with Governance .*



PREVENT

*Making the best use of information and technology.
Enhancing fraud controls and processes.
Developing a more effective anti-fraud culture.
Communicating its' activity and successes.*



PURSUE

*Prioritising fraud recovery and use of civil sanctions.
Developing capability and capacity to punish offenders.
Collaborating across geographical and sectoral boundaries.
Learning lessons and closing the gaps.*



PROTECTING ITSELF AND ITS RESIDENTS

*Recognising the harm that fraud can cause in the community.
Protecting itself and its' residents from fraud.*

This strategy and its tools provide ways for local authorities to further develop and enhance their counter fraud response by ensuring that it is comprehensive and effective and by focusing on the key changes that will make the most difference.

Local authorities can ensure that their counter fraud response is comprehensive and effective by considering their performance against each of the six themes – the six Cs – that emerged from the 2016 research:

- Culture
- Capability
- Competence
- Capacity
- Communication
- Collaboration

Many local authorities have demonstrated that they can innovate to tackle fraud and can collaborate effectively to meet the challenges. Indeed, many have identified that a reduction in fraud can be a source of sizeable savings. There are case studies and quotes through this document evidencing the good work that is already happening.

This strategy

- *recognises that fraud is not a victimless crime and seeks to protect the vulnerable from the harm that fraud can cause in the community*
- *calls upon senior management in local authorities to demonstrate that they are committed to tackling fraud and corruption*
- *calls upon local authorities to continue to tackle fraud with the dedication they have shown so far and to step up the fight against fraud in a challenging and rapidly changing environment*
- *calls upon local authorities to work together to illustrate the benefits that can accrue from fighting fraud more effectively*
- *calls upon senior stakeholders to listen to the business cases on barriers put by local authorities in order to promote counter fraud activity in local authorities by ensuring the right further financial incentives are in place and helping them break down barriers such as a lack of powers.*

Case Study

Birmingham City Council: Acknowledge Using data to tackle fraud

In the original Fighting Fraud Locally 2011 Birmingham City Council was cited as good practice for setting up a data warehouse and protecting public funds. BCC continues to put fraud at the top of the agenda.

BCC has used a well-established, sophisticated data warehouse to develop an automated programme of data matching that allows potential fraud and error to be detected within 24 hours. This has been particularly effective in identifying fraudulent claims for council tax single person discounts and fraudulent housing applications. In time BCC expects the process to reduce the amount of fraud or error requiring a formal investigation as it will have been prevented or stopped almost as soon as it began. As a result, services that are being provided incorrectly can be stopped quickly, thus helping to preserve resources and reduce the level of fraud and error.

“Local authorities must ensure they take the necessary steps to put in place a strategy which can deliver a response that protects itself and its residents. Councils need to commit adequate resources to support that work and also measure its progress against that strategy. Fighting Fraud and Corruption Locally provides the necessary tools and ideas to support that work.”

Trevor Scott, Chief Executive Wealden District Council

Introduction

This strategy document is aimed primarily at council leaders and other elected members, chief executives, finance directors and those charged with governance in local authorities.

As a result of lessons learned during previous incarnations this document contains the core strategy together with companion documents which provide more detailed guidance on its implementation which will be updated when necessary during the life of this strategy. In that way there will be live documents for practitioners to draw upon that will more readily reflect the ever changing fraud local landscape.

We recognise that pulling together practitioners and stakeholders to discuss these issues is a local authority exercise and detracts from day-to-day activity where there are limited resources in place. Therefore this strategy will cover from 2020 onwards supported by live companion documents.

The research for this strategy was carried out by local practitioners and board members.

The research was commissioned by the board and was coordinated by the secretariat.

The research consisted of:



The original Fighting Fraud Locally 2011 strategy was launched with a series of pilots and joint working, conferences and awards and was hugely successful. The workshops highlighted much work being done in local authorities that is commendable and can prevent fraud across boundaries. Therefore, as part of these fact-finding engagement exercises those that attended workshops were asked to offer activity to demonstrate the partnership as part of FFCL. Around 30 activities and events have been identified for 2020 that demonstrate some of the good practice found during the research for this document and show that local authorities continue to tackle fraud and corruption. It is intended that these examples will be used to kick-start momentum in the way that the 2011 strategy did. In addition a number of working groups have formed already to implement the recommendations.

The activity following the publication of FFCL 2016 was more limited. There was no formal local launch and limited board activity. Therefore some of the issues raised during that research still persist. Efforts have been made to redress this during the research for this strategy by setting in place activity to address those persistent issues.

Nevertheless it is clear that local authorities continue to tackle fraud, as evidenced in this strategy's case studies and by the appetite to take forward the issues raised during the research and in the good practice guides.

Several new areas were raised during the research as barriers to overcome and local authorities have already stepped up to join together to help tackle these barriers. As part of the engagement exercise working groups and local authorities are already in place to begin the work on these issues.

This document is divided into four sections:

Section 1

The Context

Sets out the nature and the scale of fraud losses, the argument for measurement and the key issues raised by stakeholders.

Section 2

The Strategic Response

Describes the response that is required from local authorities to address the challenges they are facing, identifying the activities necessary in order to achieve the strategic vision.

Section 3

Turning Strategy into Action – Delivery Plan

Sets out the recommendations and the framework for delivery.

Section 4

The Local Response – Appendices

Companion Annexes

The live companions to this strategy document set out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective. These documents may be refreshed at any time during the life of the strategy. They are not part of the strategy but are further guidance that is changeable. Areas they cover include fraud risks, good practice and the counter fraud local landscape.

Section 1: The Context

a) The scale of fraud and corruption

It is accepted that fraud affects the UK across all sectors and causes significant harm.

The Office for National Statistics states that one in 16 members of the population is likely to fall victims. The Government's Economic Crime Plan 2019 states that the number of fraud offences rose by 12% during 2018 to 3.6 million – constituting a third of all crimes in the UK.

The last, most reliable and comprehensive set of local authority figures was published by the National Fraud Authority in 2013, and indicates that the fraud threat may have been costing the UK £52bn a year.

Within these figures the threat to local authorities totalled £2.1bn.

More recent estimates are higher. The Annual Fraud Indicator produced by Crowe Clark Whitehill estimated that figure may be as high as £7.8bn in 2017 of which procurement fraud was estimated as £4.3bn. This study estimated that the total threat faced by the public sector was £40.4bn.

“We do not have a wholly reliable estimate of the total scale of economic crime. However, all assessments within the public and private sectors indicate that the scale of the economic crime threat continues to grow.”

Economic Crime Plan 2019

The National Fraud Authority estimated public sector fraud (including local government) at £20.6bn in 2013.

The National Audit Office's Local Landscape Review 2018 estimated fraud at up to £20.3bn excluding local government.

The estimated losses for local authorities in 2013 are broken down in the following by identified fraud losses and hidden fraud losses:

Estimated Local Government Fraud Loss 2013

Fraud Type	Estimated loss
Housing tenancy fraud	£845m
Procurement fraud	£876m
Payroll Fraud	£154m
Council Tax fraud	£133m
Blue Badge Scheme misuse	£46m
Grant fraud	£35m
Pension fraud	£7,1m

Annual Fraud indicator 2013

These figures do not take into account the indirect costs of responding to and dealing with fraud and exclude some potentially significant areas of fraud loss. The fraud landscape has changed since 2013 as councils have introduced new ways of working and innovative responses to risks, while at the same time new areas of fraud risk have appeared.

Local authorities were sceptical about current publications on sector fraud figures and performance as there was a plethora of different numbers with no agreement or consensus. However, they remain keen to develop a consistent risk and performance methodology for the sector and for individual councils to estimate the potential risk they face on a consistent basis. Following the research for this strategy, a working group has been set up to develop methodologies for the sector to use.

b) The nature of the problem

In June 2019 the Government published its first Economic Crime Plan and included fraud and corruption in the definition.

The Government's Economic Crime Plan 2019

What is economic crime?

To help establish our partnership, we have agreed a common language across the public and private sectors regarding economic crime. We have used the following definition of economic crime to guide our efforts. Economic crime refers to a broad category of activity involving money, finance or assets, the purpose of which is to unlawfully obtain a profit or advantage for the perpetrator or cause loss to others. This poses a threat to the UK's economy and its institutions and causes serious harm to society and individuals. It includes criminal activity which:

- allows criminals to benefit from the proceeds of their crimes or fund further criminality

- damages our financial system and harms the interests of legitimate business
- undermines the integrity of the UK's position as an international financial centre
- poses a risk to the UK's prosperity, national security and reputation

1.12 This definition is broader than terms such as 'financial crime' or 'white-collar crime' to provide a holistic response to the following types of criminality:

- fraud against the individual, private sector and public sector
- terrorist financing
- sanctions contravention
- market abuse
- corruption and bribery
- the laundering of proceeds of all crimes

For the purposes of this strategy we have retained the terms 'fraud' and 'corruption' while recognising that they are part of a wider agenda. The strategy has not been re-titled 'Economic Crime'.

c) Issues raised by stakeholders

During the workshops and research a number of barriers to effective working were raised – the main issues raised are below. Participants were asked how they would solve these issues and there were many ideas and opportunities presented. Local authorities are keen to play a part and influence the outcomes. Therefore a working group has been set up for each of these areas to assess the evidence so far, collect any further evidence and to report into the secretariat for the FFCL Board to consider. There is evidence to create an FFCL operational group from the current FFCL representative network. Further detail on how this will operate will be in the live Delivery Annex.

Recommendation: A single regional FFCL operational group should be formed from the existing FFCL regional representatives.

Fraud measurement

While recognising that the repercussions of fraud are wider than financial it is important that councils have an up-to-date estimate of what the figures and areas of risk appear to be. There are a number of different methods of calculating fraud losses, and these vary across regions. Moreover the fraud priorities differ across regions. External organisations present figures to the sector but there is little or no ownership of these within local authorities. Local authority attendees raised this lack of independent analysis and free benchmarking to look at areas in deep detail rather than reported figures on numbers of referrals or cases detected. Local authorities could use this analysis to make the business case to tackle fraud, understand fraud issues more closely and see a more detailed picture across boundaries.

Recommendation: A working group on measurement should be formed to develop a consistent risk and performance methodology for the sector.

Local authorities have agreed to work together to build a set of figures for use as an indicator of actual losses, prevention measures and fraud areas. In addition this group will look at the area of benchmarking. This work is underway and the working group is now formed and is in place.

Powers

Local authorities welcomed the introduction of the Prevention of Social Housing Fraud Act (PSHFA) and reported that it had improved accessibility to information and intelligence.

However, some issues on powers that had been raised previously had not been taken forward by any parties, as the PSHFA, had and have been exacerbated by

Case Study

An employee responsible for managing Ipswich Market and collecting stall rent from traders was prosecuted for theft of cash collected. The council's finance team identified an irregularity when it attempted to reconcile income received to income due. The theft was valued at £33,376 and totalled 91 thefts. The employee was given an 18-month prison sentence suspended for two years and ordered to carry out 250 hours of unpaid work in the community.

He was also ordered to pay £14,000 compensation to Ipswich Borough Council at the rate of £400 a month.

new fraud areas such as social care fraud where local authorities report it is difficult to obtain information. During the research local authorities have provided a number of examples across service areas where they cannot obtain information or access organisations in order to progress investigations.

There are a number of potential avenues to resolve these issues and local authorities have themselves suggested opportunities to resolve these. These issues need to be explored further to identify and evidence areas where lack of powers currently frustrate efforts by the sector to successfully progress counter fraud investigations. This will then enable the sector to lobby for the additional powers required.

Recommendation: A working group on powers should be formed.

Local authorities have agreed to work together to identify and evidence areas where lack of powers currently frustrate efforts by the sector to successfully progress counter fraud activity and identify what additional powers are required, what forms that should take and to examine the suggestions that have been collated. This evidence should then be used to lobby government to grant additional powers required. This recommendation is underway and the working group is now formed and is in place

Incentives

Local authorities welcomed the Counter Fraud Fund in 2015 which had been distributed by the then Department for Communities and Local Government

This fund was a one-off and there were good results that are detailed on the Local Government Association Counter Fraud Hub page. However, many local authorities did not have the opportunity to bid and some had lost resources. Local authorities reported that they did not have funds to set up dedicated teams or undertake proactive work, and offers of technology were expensive and often duplicated existing offerings. Local authorities have made some suggestions about ways in which counter fraud activity may be funded. Local authorities have put together ideas on what types of incentives could support improved activity.

Recommendation: A working group on incentives should be formed.

Local authorities have agreed to work together to indicate where incentives may be required from Government and what forms they may take and to examine the suggestions that have been collated in the research.

The working group is now formed and is in place and the work is underway.

Data analytics and matching

A number of data related initiatives exist which local authorities may take part in for example, counter fraud hubs. At the majority of workshops it was said that there is inconsistent advice, high pricing, lack of discussion with suppliers and difficulty filtering out what is useful from what is not. The National Fraud Initiative has two products which were highlighted as useful and these are the Fraud Hub and AppCheck. It was also reported that there were issues with data quality, data standards and a lack of quality assurance about products.

Recommendation: A working group should be formed to review existing data related initiatives available to local authorities and recommend best practice or new ideas.

Local authorities have agreed to form a working group to look at the area of data. A number of ideas have been put together and the group will consider these and what further activity is required. This group will need to decide what is in scope for this work as the issues raised are varied. This recommendation is underway and the working group is now formed and is in place.

Social care issues

At most workshops the area of social care fraud was raised. Social care fraud harms the community and vulnerable individuals who are unable to detect scams or fraud and are often unable to report them. Sometimes abuse of funds by family members or carers complicates the situation. This can include financial abuse of vulnerable persons, not just direct payments and personal budgets.

This area of fraud has emerged as a growing risk since the last strategy was published. The impact of this risk on already stretched social care services and budgets is potentially very significant. For this reason, organisations with relevant skills together with those local authorities that have developed good practice have offered to support work in this area of risk. Our research also highlighted a number of ideas about identifying and tackling some systemic vulnerabilities in this area. Local authorities should ensure fraud strategies are aligned with safeguarding responsibilities to ensure we actively protect the most vulnerable in our communities. Close working with social care teams will be required with joint approaches and planning.

Recommendation: A working group on social care fraud should be formed to look at how local fraud strategies should align to local authorities' safeguarding responsibilities as well as to identify best practice in countering risks relating to social care fraud.

Local authorities have agreed to form a working group to look at the area of social care fraud. A number of ideas have been put together and the group will consider these and what further activity is required. This recommendation is underway and the working group is now formed and is in place.

“Investing to prevent fraud should be one of the early steps in building your counter fraud response. The repercussions of fraud can be far reaching. We have a duty to protect residents in our communities from fraud and we should work in collaboration with officers across the council and partner agencies to prevent fraud and safeguard the vulnerable. Fraud is not a victimless crime”.

*Clive Palfreyman, Executive Director Finance & Resources
London Borough of Hounslow*

d) The themes

In FFCL 2016 a number of themes were identified and while those are still relevant and supported during the research one in particular stood out: collaboration.

Collaboration

There is an appetite for collaboration across the sector and geographically. However, it does not apply solely to local authorities. There is a need for collaboration across sectors, local law enforcement and with suppliers and external organisations.

The current FFCL regional representatives' network functions well. However, there is still a gap where information does not flow. There are also links to law enforcement and both national and local bodies which if they were stronger would help support the fight against fraud. Some councils already participate in regional bodies that could easily be better connected. There is overwhelming support for the idea of more formal FFCL-linked groups. Local authorities requested FFCL regional group.

There is also the possibility of exploring the principle of placing an obligation on partner bodies to share information to assist the detection and prevention of fraud even if the fraud is not against the sharing body.

Furthermore, local authorities reported the need to be more formally linked into the national law enforcement bodies. During the research a number of issues and patterns appeared in workshops that have been raised with enforcement; this demonstrates the merits of a joined-up approach. The Chief Executive of Cifas currently chairs the Joint Fraud Taskforce as well as sitting on the FFCL board and this has enabled Cifas to raise issues with the National Economic Crime Centre about local authorities' fraud risks. Local authorities requested support for better links to the major bodies in enforcement.

It was noted that where support was offered from outside the sector this could lead to a lack of 'ownership' by local authorities and that, had they been consulted or asked to contribute, products and services might have had better take-up. In particular, the cost of external support was raised several times as a barrier to take-up.

Recommendation: A single FFCL regional operational group should be created using the existing network that can link to relevant boards and enforcement.

Activity

During the workshops local authorities agreed to join the existing FFCL regional groups with a representative who is able to form part of a regional FFCL operational group supported by an FFCL Strategic Advisory Board (the current FFCL board).

The North East Regional Investigations Group will form a pilot and link to wider local law enforcement. This has been agreed with that region and is in place.

The new FFCL Strategic Advisory Board should have a dotted-line link into the Joint Fraud Taskforce, which will give access to the main players in local law enforcement.

There is further detail on this in the Delivery Plan Annex with a diagram that outlines how operational issues may flow upwards. The new FFCL regional operational group should be initially chaired by one of the local authority experts from the FFCL Strategic Advisory Board.

Organising ourselves – a collaborative governance model

Local authorities involved in the workshops realised the need for a strategic board and were pleased that the FFCL board had been in place since 2010 with oversight and had stood the test of time. It was also noted that the board had changed in role several times as had the membership. The original board had been very active, the second board had been more of an oversight body and the current board was wider but less visible. Attendees at workshops raised questions regarding the governance of FFCL, the route for selection to the board and the seniority and expertise of the board.

Further detail is included in the Delivery Plan Annex

Attendees appreciated the support from the firms and private sector and did not object in any way to these board members. In particular, the rebuilt secretariat and the support for the conference and awards in 2019 were noted, as was Mazars' free support on toolkits.

Recommendation: It is recommended that a review of governance takes place in respect of the role of the current board in light of the FFCL regional operational group and links to the Joint Fraud Taskforce.

Further recommendations are detailed in the Delivery Plan Annex.

Case Study

The first social care fraud prosecuted by Veritau and City of York Council

Veritau investigated following a referral from a member of the public. This is the first prosecution of a social care fraud by the council's legal department and an area of development for the counter fraud team. Several prosecutions for social care fraud have been achieved before, but these were jointly investigated by the police and taken to court by the Crown Prosecution Service.

The defendant was the financial representative for his mother who received social care support funded by City of York Council. The council funded his mother's social care, and he failed to inform them when his parents' property sold in 2014. He subsequently lied about this on a financial assessment form. The £86,000 has been paid back to the council in full. Information was received that his parents' property had been sold in 2014 for £200,000 and he had not declared this to the council in an attempt to avoid paying for his mother's care fees. The investigation found that on two separate occasions in 2015 he informed the council that his parents were still joint owners of the property and that his father lived there. In a financial assessment for social care funding, jointly owned properties are disregarded if a family member continues to live there.

The counter fraud team worked alongside financial investigators from the council's trading standards team, who were able to obtain financial information which showed that £198,000 from the house sale was deposited into the son's bank account. This money should have been taken into account for his mother's social care funds, meaning that the council would not have had to pay £86,000 out of the public purse. As a result of the two teams working together, the man was billed and the entire loss has now been repaid to the council.

He pleaded guilty to two charges of fraud by false representation at York Magistrates' Court on 8 October 2019. The case was referred to York Crown Court for sentencing on 19 November where he received a 20-month suspended sentence and was ordered to do 80 hours of unpaid work. He was also ordered to pay court costs of over £1,100 and an £80 victim surcharge. When sentencing, the judge said that a significant factor in mitigation was that he had already repaid the £86,000 to the council.

e) Fraud risk areas

The research has highlighted the following types of fraud risks. These frauds are expanded on in the companion documents and the list below is a brief description:

Fraud risks raised in the research

<i>Social care fraud: personal budgets and direct payments</i>	overstatement of needs through false declaration, multiple claims across authorities, third party abuse by carer, family or organisation, posthumous continuation of claims
<i>Schools</i>	most issues that were raised in the workshops were also raised as issues for schools. This area did not feature in FFCL 2016
<i>Right to buy</i>	fraudulent applications under the right to buy/acquire
<i>Money laundering</i>	exposure to suspect transactions
<i>Commissioning of services</i>	including joint commissioning, joint ventures, commercial services, third sector partnerships – conflicts of interest, collusion
<i>Tenancy</i>	fraudulent applications for housing or successions of tenancy, and subletting of the property
<i>Procurement</i>	tendering issues, split contracts, double invoicing
<i>Payroll</i>	false employees, overtime claims, expenses
<i>Identity fraud</i>	false identity/fictitious persons applying for services/payments
<i>Council tax</i>	discounts and exemptions, council tax support
<i>Blue Badge</i>	use of counterfeit/altered badges, use when disabled person is not in the vehicle, use of a deceased person's Blue Badge, badges issued to institutions being misused by employees
<i>Grants</i>	work not carried out, funds diverted, ineligibility not declared
<i>Business rates</i>	fraudulent applications for exemptions and reliefs, unlisted properties
<i>Insurance fraud</i>	false claims including slips and trips
<i>Disabled facility grants</i>	fraudulent applications for adaptations to homes aimed at the disabled

“Fraud has not disappeared: it is ever present, evolving and affects the funding that is needed for frontline services. In many public sector bodies it is still an area where there is significant underinvestment, because they are not recognising the extent of the epidemic and seeing other priorities, particularly around service delivery, as more important. As fraudsters evolve, we must too. To these ends, through collaboration and intelligence sharing with a fraud prevention specialist service, we are ensuring that cases of fraud are not replicated across our partnership, mitigating controls are put in place and offenders are dealt with appropriately. Through our proactive intelligence-led approach we are taking steps to ensure the public purse is protected from all fraudulent activity.”

David Hill, Chief Executive South West Audit Partnership

Concessionary travel schemes – use of concession by ineligible person, including freedom passes

No recourse to public funds – fraudulent claims of eligibility

New responsibilities – areas that have transferred to local authority responsibility

Local Enterprise Partnerships – partnerships between local authorities and businesses. Procurement fraud, grant fraud. All LEPs should now be incorporated, with a local authority as accountable body, in a more formal and regulated relationship. Key issues are LEP governance, procedures for allocating/prioritising grants

Immigration – including sham marriages. False entitlement to services and payments

Cyber-dependent crime and cyber-enabled fraud – enables a range of fraud types resulting in diversion of funds, creation of false applications for services and payments.

However, during the research for this strategy it has become clear that some frauds have become more prevalent and that some risks have reduced. In addition, fraud risks were raised at several workshops about money laundering, suspicious activity reports and risks attached to local authorities becoming more commercial.

The details of these risks are included in the companions as these are seen as changing areas that may need frequent updating.

While the direct consequences of fraud may be financial and reputational loss there are wider impacts that surround the harm to victims locally and the harm in the community. Local authorities have raised a number of issues about protecting the vulnerable from fraud and this spans a large area. There are also other stakeholders in this local landscape who offer support to victims, have developed networks and done deeper research. A large number of volunteers have come forward from the workshops with good practice and a willingness to collaborate to prevent and tackle these issues. The main fraud risk area that has drawn attention is social care fraud. However, there are other frauds that may merit scrutiny.

Activity

Local authorities have agreed to form a working group to look at the area of social care fraud. A number of ideas have been put together and the group will consider these, what further activity is required and if any wider work can be done.

Economic Crime Plan 2019

Economic crime touches virtually all aspects of society. Economic crimes range across the full breadth of criminality, ranging from low-level frauds through to sophisticated cyber-enabled market manipulation. Fraud is now the second most common crime type in England and Wales, with nearly every individual, organisation and type of business vulnerable to fraudsters.

f) Counter Fraud Capacity, Competence and Capability

In FFCL 2016 themes were identified in the areas of capacity, competence and capability as part of the 6Cs – see page 23. These issues still exist.

Despite the challenge around capacity, competence and capability and lack of dedicated resource it is clear that activities to tackle fraud across the sector are being pursued and having a positive impact. But demand and growth in the number of incidents of fraud reported nationally mean local authorities must focus on areas of fraud that they identify as posing greatest risk and adverse impact on their organisations and the vulnerable. Working collaboratively and sharing resources should be encouraged and the FFCL regional board should undertake an analysis of which local authorities may benefit from support and how this might happen.

Many local authority practitioners reported that their capacity to tackle fraud and corruption had been reduced as a result of austerity-related local authority funding reductions. In addition several workshops were attended by shared service representatives and reported that non-attendees no longer had counter fraud resources. In one workshop it was noted that eight councils did not have any resource but that a colleague in the revenue department of a neighbouring authority had been 'helping out' across them. There are also situations that require collaboration: for example, a district council pursues council tax and business rates fraud, but the main beneficiaries are the county council and the Government.

In many cases practitioners also reported that some of the skilled investigation resource had been transferred to the Department for Work and Pensions and had not been replaced. There were large disparities in respect of numbers of staff and skills.

Local authorities reported that their staff did not always have the skills or training to tackle fraud and corruption. Many attendees were skilled and qualified. It was also clear that because a number of local authorities did not have access to a team they were not covering the full range of fraud activities. In contrast the workshops were well attended by experts who, while overloaded, were attempting to tackle all frauds but with one hand behind their backs. Very often they said they would be pleased to assist neighbouring councils but had no contact or requests. The FFCL regional board may assist with this and what support can be given.

In addition there were some parts of the country where the teams were not up to date with current local landscape issues or activities that would benefit them in their roles. At the FFCL 2019 conference questions were raised about free access to tools and

good practice and it was agreed to hold this in the Knowledge Hub, which is an independent, free tool that many local authorities already use. In addition some local authorities already have small networks in the Knowledge Hub that they could link to the FFCL pages. The Knowledge Hub has been open for FFCL since the summer and now contains the archive documents as well as details about other current issues.

Adult care services successful prosecution and repayment in full of fraud loss

The subject of this investigation was the husband of a Hertfordshire County Council service user in receipt of financial support to pay for daily care. He completed the financial assessment forms on behalf of his wife but failed to declare ownership of residential property that was rented out in the private sector.

The allegation originated from a social worker who had a 'gut feeling' that the couple had a second home and referred to matter to Herts' shared anti-fraud service.

The investigation found that the couple jointly owned three properties in addition to their residential home. All three properties were rented out and held equity.

The husband was interviewed under caution where he accepted ownership of the properties but denied any wrongdoing, stating that there was no capital in any of the additional homes and that he had been struggling financially since his wife became ill. As part of the enquiries conducted by the team a fourth property was identified abroad.

On 1 July 2019 at Luton Crown Court, he pleaded guilty to all three counts of fraud by false representation. He was sentenced to two years in prison, suspended for two years. The judge adjourned any financial sanction until the confiscation order was completed. A service decision was made in that had the financial assessment form been completed correctly and the additional property declared, the service user would have been deemed a self-funder and received no financial support for care. Therefore the loss to HCC was calculated as £75,713 and a future saving of £1,166 per week (£60,632 per year) was recorded.

The loss including interest was calculated to be £89,141, which he has paid in full.

Case Study

Collaboration on Protect and Pursue

A man was sentenced to 18 months' imprisonment, suspended for 18 months, after forging documents when applying for disabled persons' freedom passes and disabled persons' Blue Badges.

He was found guilty of 12 offences - nine at Brent, Enfield and Haringey councils. He then pleaded guilty to a further three charges of forgery at Waltham Forest Council.

A lengthy investigation, led by Brent Council's fraud team, discovered that the subject used fake birth certificates, utility bills and medical certificates to falsely present himself and others as disabled.

Brent Council worked with the other three local boroughs, who carried out their own thorough and professional investigations with Brent's support, to join up the charges that resulted in the successful verdict.

For the Brent, Enfield and Haringey offences he was sentenced to 18 months' imprisonment per offence for these nine offences to be served concurrently. The sentence was suspended for 18 months.

The man was sentenced to 12 months' imprisonment for each of the three Waltham Forest offences. This was also suspended and will be served concurrently with the 18-month sentence. He also needs to complete 20 hours of a rehabilitation activity requirement order.

Culture

Some local authority practitioners reported that senior managers were finding it difficult to dedicate sufficient time to demonstrate their support for counter fraud activities due to a focus on other priorities such as meeting budget savings targets and maintaining key services to residents.

This was considered to have a negative effect upon performance, and was associated with counter fraud work having a low profile and the benefits of counter fraud work not being fully appreciated. Appendix 1 details what senior officers and members should focus on.

There is reluctance in some cases to report identified fraud, for example in press releases, for fear of presenting a negative impression of an authority. Reporting of successful outcomes is a powerful tool in prevention and deterrence.

It is important to embed a counter fraud culture and this requires a focus and leadership from the top. This requires having an appropriate resource in place. There is a role for the audit committee to challenge activity, understand what counter fraud activity can comprise and link with the various national reviews of public audit and accountability.

Collaboration

Local authority practitioners demonstrated an appetite for working more formally across local authority boundaries and with other agencies, departments and the private sector. They reported a range of difficulties in securing progress to working together.

Examples included counter fraud work not being consistently prioritised across the sector, lack of financial incentives to make the business case to collaborate, local lack of understanding of data protection rules, and lack of funding.

They also reported an appetite for innovative use of data and wider data sharing, but had encountered barriers to this or made very slow progress.

Local authorities further reported that they found it hard to get the police involved in their cases and that they did not receive feedback on cases from crime reporting hotlines.

During the research a number of incidents were highlighted that demonstrated patterns of activity, organised fraud and money laundering. These issues have been acted upon. However, it is important that local authorities have access to routes where they can report these matters. Local authorities are the eyes and ears of the community and have a wealth of data that can help other local law enforcement if legally

accessed but this communication is not happening everywhere. This collaboration would support the fight against serious and organised crime. If the recommendations about links between the operational board and the JFT are agreed this will start to resolve some of the issues in this section.

Recommendations:

The external auditor should highlight FFCL and its appendices to the audit committee in the annual report

The regional network should continue use the Knowledge Hub as a free, independent, non-commercial confidential space to share information. When it is live the secretariat should hand it to the FFCL operational board.

Local authorities should partner with neighbours and engage in regional networks and should consider sharing resources and expertise. The FFCL operational board should take the lead on this.

While this strategy covers fraud and corruption, no instances of corruption were raised at the workshops though it was clearly considered alongside fraud in local strategies. The Ministry of Housing, Communities and Local Government has conducted research on procurement fraud and corruption that will be added to

the live FFCL documents.

“Working in partnership has allowed the Veritau member councils to establish a dedicated corporate fraud team. The team offers each council access to fraud investigators with specialist knowledge of the fraud risks facing local government. The team has also helped each council to recover significant fraud losses, particularly in new and emerging areas like adult social care.”

Max Thomas, Managing Director Veritau

Case Study

Devon Audit Partnership

A social housing local landlord alleged that Mr P was potentially subletting his property illegally to an unentitled third party. Mr P was already in the process of applying for the right to buy his social housing property.

The subsequent investigation revealed evidence that Mr P's friend was subletting the property from him and had been for at least two years. It also confirmed that Mr P was living in a private rented property with his girlfriend less than two miles away.

Mr P constantly denied the allegations. However, at his interview under caution with the DAP counter fraud services team, after repeatedly lying, he admitted the overwhelming evidence proved he was letting his friend live at his social housing property but denied that he had done anything wrong.

Mr P was subsequently prosecuted and pleaded guilty at that point to two offences contrary to:

Prevention of Social Housing Fraud Act 2013 – in relation to the dishonest illegal sublet of a social housing property

Fraud Act 2006 – in relation to the dishonest attempt to fraudulently obtain a £39,600 discount on his right to buy.

Mr P was sentenced to 160 hours' unpaid work for each charge and ordered to pay Plymouth City Council £750 towards its costs. Judge Darlow stated at the end of the case: “It was fraud [and] the decision by Plymouth City Council to prosecute is to be applauded.”

Section 2: The Strategic Approach

To support the delivery of the strategy there is a need for an action plan, appropriate governance arrangements and revised structures to underpin the key requirements to foster and improve collaboration across boundaries.

The recommendations contained in this strategy need to be turned into a set of achievable actions that are properly resourced, timetabled and allocated to appropriate local and national partners. These will need to be supported by an advisory board of senior stakeholders that commands widespread support and leadership across all levels of local

government. This should include the Local Government Association and the relevant central government departments.

New structures, appropriate to the changing demands, need to be constructed to support the delivery of the strategy. It is recommended that these are built upon the existing counter fraud arrangements already paid for by local government, and that the resources of the existing and new structures are committed to supporting the delivery of this strategy.

The key principles are laid out in the pillars and themes:



Govern

The bedrock of the strategy is that those who are charged with governance support the activity by ensuring that there are robust arrangements and executive support to ensure counter fraud, bribery and corruption measures are embedded throughout the organisation. Beating fraud is everyone's business. The internal arrangements that are put in place should be communicated throughout the organisation and publicly available to demonstrate the culture and commitment to preventing fraud.

Without exception the research revealed an 'ask' that those charged with governance be directed to the strategy and that this become a key element. During the research for FFL 2011 and 2016 it was requested that some key points be laid out for those charged with governance in local authorities to make it simple for them to ensure fraud was being tackled. This request was repeated on numerous occasions during the workshops for FFCL 2020. Some basic questions are laid out at the end of the strategy in Appendix 1.

The supplements to this strategy lay out some key stakeholders, their roles and the areas that they should consider when evaluating the counter fraud efforts in their organisations.

The pillar of 'govern' sits before 'acknowledge'. It is about ensuring the tone from the top and should be included in local counter fraud strategies.

Acknowledge

In order to create a counter fraud response an organisation must acknowledge and understand fraud risks and then demonstrate this by committing the right support and appropriate resource to tackling fraud.

This means undertaking a risk assessment of fraud areas and vulnerabilities and then agreeing an appropriate resource. Not every local authority requires a large team but they should have assessed the risk, have a plan to address it and have access to resources with the right capabilities and skills.

Prevent

Fraud can be prevented and detected by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.

Local authorities should set in place controls to prevent fraudsters from accessing services and becoming employees. It is nearly always more cost-effective to prevent fraud than to suffer the losses or investigate after the event.

The technology to establish identity, check documents and cross-check records is becoming cheaper and more widely used. Controls should apply to potential employees as well as service users. If someone lies about their employment history to obtain a job they are dishonest and it may not be appropriate to entrust them with public funds. In any case they may not have the training or qualifications to perform the job to the required standard.

Case Study

Fraud Hub Hertfordshire County Council

Hertfordshire County Council and a number of its neighbouring authorities are taking the next step to protect themselves by sharing intelligence in a newly formed FraudHub from the National Fraud Initiative to ensure they can reveal the full extent of fraudulent activities within their region.

Results so far have been extremely positive for Hertfordshire with over...

- *3,000 Blue Badges cancelled*
- *3,000 concessionary travel passes being revoked*
- *120 LG pensions or deferred pensions stopped*
- *182 Direct Payments or personal budgets for adult care being stopped/reduced or reviewed*
- *15 residential care placements being cancelled*
- *23 payroll discrepancies being subject to further investigation*
- *50,000 customer records removed from database alone using mortality data*
- *More than £5m in estimated savings in its first 12 months*

Pursue

Punishing fraudsters and recovering losses by prioritising the use of civil sanctions, developing capability and capacity to investigate fraudsters and developing a more collaborative and supportive law enforcement response on sanctions and collaboration.

Local authorities have achieved success by following this approach; however, they now need to respond to an increased threat.

A further theme has appeared during the research to link with the government strategy but also recognising the increased risks to victims and the local community.

Protect

Protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community.

For a local authority this will also cover protecting public funds, protecting its organisation from fraud and cyber-crime and also protecting itself from future frauds. This theme lies across the pillars of this strategy.

From the research it is clear that a large number of local authorities use the FFCL initiative as a basis for local plans. Some local authorities have embedded the pillars into operational work. An example of how this has been done is included in the Annexes.

Case Study Pursue

Subletting Case Study Westminster City Council – unlawful profits

The council investigated following an anonymous tipoff that the tenant of a council property was not using the address as required by their tenancy and was profiting from the short-term letting of the property using Airbnb.

Searches of Airbnb carried out by the investigator found the property, which is a studio flat, advertised as a whole property with over 300 reviews. The council investigator found that even though the listing was not in the tenant's name, some of the reviews mentioned the tenant by his name, thanking him for his advice and local restaurant recommendations.

The council obtained the tenant's bank statements under the provisions of the Prevention of Social Housing Fraud Act using the authorised officer service provided by the National Anti-Fraud Network. The investigator subsequently found credits totalling over £125,000 covering four years.

All payments were credited from Airbnb, PayPal or Worldpay. When investigators visited the property they found a man at the premises who denied being the tenant even though his appearance matched the tenant's description. The next day the adverts had been removed from Airbnb but the investigator

had already retrieved and saved copies.

The tenant failed to attend several interviews under caution, but when possession action began his solicitors asked for a further opportunity for their client to be interviewed under caution to provide an account of events. This was agreed but again the tenant failed to attend the interview. Having applied the Code for Crown Prosecutors to the facts of the case and the defendant's personal circumstances, criminal action was not taken.

At the possession hearing, the District Judge said the Airbnb evidence was strong and that there was no distinction between 'short-term let' and subletting the home. The judge found in favour of the council. At an unsuccessful appeal hearing the judge agreed to the council's unlawful profits order of £100,974.94 – one of the highest that has ever been awarded to the council.

The tenant has now been evicted from the property.

Fighting Fraud and Corruption Locally – embedding the pillars

Durham County Council's counter fraud and corruption team has embedded many of the themes to create a robust approach. They have set up partnerships across sectors and regions, created a data hub and used the FFCL strategy to inform all of their work. The audit committee has supported the team and attended the FFCL awards in 2019.

DCC believes the best defence is to create a strong anti-fraud culture based on zero tolerance to deter fraud from being committed. It has reinforced this with a new corporate fraud sanction policy.

Norwich City Council adopted the FFCL pillars into its anti-fraud and bribery strategy in 2017 with the additional pillars of governance (similar to the NHS model). This has had a positive response from council executives and members including the audit committee. The annual report contains a RAG-rated review against the criteria set out in the local strategy and an activity plan based on the criteria each year to demonstrate progress and highlight areas to focus on.

A more detailed explanation of these is in the Annexes.

The Themes – Six Cs

The live companions to this strategy document set out more information on how local authorities can ensure that their counter fraud response is comprehensive and effective. In the 2016 Strategy six themes were identified and during the research the workshop attendees were keen that these remain part of the strategy document.

Local authorities should consider their performance at a minimum against each of the six themes that emerged from the research conducted. To ensure this is effective and proportionate local authorities should benchmark this information where possible.

The themes are:

Culture – creating a culture where fraud and corruption are unacceptable and that is measurable

Capability – assessing the full range of fraud risks and ensuring that the range of counter fraud measures deployed is appropriate

Capacity – deploying the right level of resources to deal with the level of fraud risk that is monitored by those charged with governance

Competence – having the right skills and standards commensurate with the full range of counter fraud and corruption activity

Communication – raising awareness internally and externally, deterring fraudsters, sharing information, celebrating successes

Collaboration – working together across internal and external boundaries: with colleagues, with other local authorities, and with other agencies; sharing resources, skills and learning, good practice and innovation, and information.

Making the business case:

Investing in counter fraud activity –

Local authorities should pursue opportunities to invest in counter fraud and corruption activity in order to generate savings by preventing and recovering losses.

Local authorities do not, as a rule, explicitly budget for fraud losses (the exception to this is housing benefit, where subsidy losses are budgeted for). However, estimates of local authority losses demonstrate that there is a significant problem, and therefore a significant opportunity for local authorities.

Local authorities should seek to assess their potential losses and measure actual losses in order to make the business case for investing in prevention and detection. In many cases there is an existing business case based upon the experience of other local authorities. For example, the prevention and detection of fraud perpetrated in income areas such as council tax is now widespread and offers higher tax revenue which can be recovered through existing, efficient collection systems. However, each local authority will need to make its own case as fraud risks will vary significantly depending on location, scope, and scale of activities.

The moral case – fraud and corruption in local authorities are unacceptable crimes that attack funds meant for public services or public assets.

The result is that those in genuine need are deprived of vital services. Fraud and corruption are often linked with other criminal offences such as money laundering and drug dealing. Local authorities have a duty to protect the public purse and ensure that every penny of their funding is spent on providing local services. More often than not, in doing so they achieve wider benefits for the community. For example, adult social care sits within the precept for council tax and reducing fraud in this area means that taxpayers' money is protected and is an incentive.

Case Study

An interim manager hired vehicles for personal use covering at least nine different vehicles and costing more than £18,000. The fraud included various invoice frauds for gardening services and over £20,700 paid to the interim manager's account.

In total the interim manager's actions resulted in monies, goods or services with a total value of £60,882.16 being ordered or obtained at a cost to the council from seven suppliers, including false invoices purporting to be from a gardening company.

Thirty-one fraudulent invoices were introduced by the interim manager totalling over £48,000 and were processed, authorised and paid using the council's systems. A further eight invoices totalling

more than £7,000 were subsequently authorised by the interim manager's line manager for liabilities incurred by the interim manager. Employee purchase cards were used to pay for goods worth over £1,270 and the interim manager personally benefited by £4,000 from the compensation payment and over £20,780 from the fraudulent invoices he submitted from the gardening company.

The fraud was discovered via a whistleblowing referral to audit services

The council's investigation found that the maintenance company with the same bank account as the interim manager's company did not exist. The council's audit services department led an investigation with the police to take the matter to Birmingham Crown Court where the interim manager pleaded guilty to Fraud Act offences. He was sentenced to three years' imprisonment on 25 September 2019.

Section 3: Turning Strategy into Action

The Delivery Plan

To support the delivery of the strategy there is a need for an action plan, appropriate governance arrangements and revised structures to underpin the key requirements and foster and improve collaboration across boundaries.

The set of recommendations contained in this strategy need to be turned into a set of achievable actions that are properly resourced, timetabled and allocated to appropriate local and national partners. These will need to be supported by an advisory board of senior stakeholders that commands widespread support across all levels of local government. This should include the Local Government Association and the relevant central government departments.

New structures, appropriate to the changing demands, need to be constructed to support the delivery of the strategy. It is recommended that these are built upon the existing counter fraud arrangements already paid for by local government, and that the resources of the existing and new structures are committed to supporting the delivery of this strategy.

Further details on governance and recommendations are in the Delivery Plan Annex.

Section 4: The Local Response

Appendix 1

What should senior stakeholders do?

The chief executive

1. Ensure that your authority is measuring itself against the checklist for FFCL
2. Is there a trained counter fraud resource in your organisation or do you have access to one?
3. Is the audit committee receiving regular reports on the work of those leading on fraud and is the external auditor aware of this?

The section 151 officer

1. Is there a portfolio holder who has fraud within their remit?
2. Is the head of internal audit or counter fraud assessing resources and capability?
3. Do they have sufficient internal unfettered access?
4. Do they produce a report on activity, success and future plans and are they measured on this?

The monitoring officer

1. Are members, audit committees and portfolio leads aware of counter fraud activity and is training available to them?
2. Is the fraud team independent of process and does it produce reports to relevant committees that are scrutinised by members?

The audit committee

1. Should receive a report at least once a year on the counter fraud activity which includes proactive and reactive work
2. Should receive a report from the fraud leads on how resource is being allocated, whether it covers all areas of fraud risk and where those fraud risks are measured
3. Should be aware that the relevant portfolio holder is up to date and understands the activity being undertaken to counter fraud
4. Should support proactive counter fraud activity
5. Should challenge activity, be aware of what counter fraud activity can comprise and link with the various national reviews of public audit and accountability.

The portfolio lead

Receives a regular report that includes information, progress and barriers on:

- The assessment against the FFCL checklist
Fraud risk assessment and horizon scanning.

Appendix 2

FFCL Checklist

- The local authority has made a proper assessment of its fraud and corruption risks, has an action plan to deal with them and regularly reports to its senior Board and its members.
- The local authority has undertaken a fraud risk assessment against the risks and has also undertaken horizon scanning of future potential fraud and corruption risks. This assessment includes the understanding of the harm that fraud may do in the community.
- There is an annual report to the audit committee, or equivalent detailed assessment, to compare against FFCL 2020 and this checklist.
- The relevant portfolio holder has been briefed on the fraud risks and mitigation
- The audit committee supports counter fraud work and challenges the level of activity to ensure it is appropriate in terms of fraud risk and resources
- There is a counter fraud and corruption strategy applying to all aspects of the local authority's business which has been communicated throughout the local authority and acknowledged by those charged with governance.
- The local authority has arrangements in place that are designed to promote and ensure probity and propriety in the conduct of its business.
- The risks of fraud and corruption are specifically considered in the local authority's overall risk management process.
- Counter fraud staff are consulted to fraud-proof new policies, strategies and initiatives across departments and this is reported upon to committee.
- Successful cases of proven fraud/corruption are routinely publicised to raise awareness.
- The local authority has put in place arrangements to prevent and detect fraud and corruption and a mechanism for ensuring that this is effective and is reported to committee.
- The local authority has put in place arrangements for monitoring compliance with standards of conduct across the local authority covering:
 - codes of conduct including behaviour for counter fraud, anti-bribery and corruption
 - register of interests
 - register of gifts and hospitality.
- The local authority undertakes recruitment vetting of staff prior to employment by risk assessing posts and undertaking the checks recommended

- in FFCL 2020 to prevent potentially dishonest employees from being appointed.
- Members and staff are aware of the need to make appropriate disclosures of gifts, hospitality and business. This is checked by auditors and reported to committee.
- There is a programme of work to ensure a strong counter fraud culture across all departments and delivery agents led by counter fraud experts.
- There is an independent and up-to-date whistleblowing policy which is monitored for take-up and can show that suspicions have been acted upon without internal pressure.
- Contractors and third parties sign up to the whistleblowing policy and there is evidence of this. There should be no discrimination against whistleblowers.
- Fraud resources are assessed proportionately to the risk the local authority faces and are adequately resourced.
- There is an annual fraud plan which is agreed by committee and reflects resources mapped to risks and arrangements for reporting outcomes. This plan covers all areas of the local authority's business and includes activities undertaken by contractors and third parties or voluntary sector activities.
- Statistics are kept and reported by the fraud team which cover all areas of activity and outcomes.
- Fraud officers have unfettered access to premises and documents for the purposes of counter fraud investigation.
- There is a programme to publicise fraud and corruption cases internally and externally which is positive and endorsed by the council's communications team.
- All allegations of fraud and corruption are risk assessed.
- The fraud and corruption response plan covers all areas of counter fraud work:
 - prevention
 - detection
 - investigation
 - sanctions
 - redress.
- The fraud response plan is linked to the audit plan and is communicated to senior management and members.
- Asset recovery and civil recovery are considered in all cases.
- There is a zero tolerance approach to fraud and corruption that is defined and monitored and which is always reported to committee.
- There is a programme of proactive counter fraud work which covers risks identified in assessment.
- The counter fraud team works jointly with other enforcement agencies and encourages a corporate approach and co-location of enforcement activity.

- The local authority shares data across its own departments and between other enforcement agencies.
- Prevention measures and projects are undertaken using data analytics where possible.
- The counter fraud team has registered with the Knowledge Hub so it has access to directories and other tools.
- The counter fraud team has access to the FFCL regional network.

There are professionally trained and accredited staff for counter fraud work. If auditors undertake counter fraud work they too must be trained in this area.

The counter fraud team has adequate knowledge in all areas of the local authority or is trained in these areas.

The counter fraud team has access (through partnership/ other local authorities/or funds to buy in) to specialist staff for:

- surveillance
- computer forensics
- asset recovery
- financial investigations.

Weaknesses revealed by instances of proven fraud and corruption are scrutinised carefully and fed back to departments to fraud-proof systems.

Section 4

The Fighting fraud and Corruption Locally board would like to thank

The Fighting Fraud and Corruption Locally board is:

Charlie Adan – Chief Executive and SOLACE
 Bevis Ingram – LGA
 Andrew Hyatt – Royal Borough of Kensington and Chelsea
 Mike Haley – Cifas and Joint Fraud Taskforce
 Rachael Tiffen – Cifas and secretariat
 Suki Binjal - Lawyers in Local Government
 Colin Sharpe – Leicester City Council
 Clive Palfreyman – LB Hounslow
 Trevor Scott – Wealden District Council
 Alison Morris – MHCLG
 Mark Astley – NAFN
 Paula Clowes – Essex County Council
 Simon Bleckly – Warrington Council
 Karen Murray – Mazars
 Paul Dossett – Grant Thornton
 Marc McAuley – Cipfa

The Board would like to thank Cifas for managing this process, for the delivery of the research and the drafting of this document.

Regional Workshops

Around 260 councils attended workshops organised in the following areas:

East Anglia
SouthWest, Devon, Plymouth, Cornwall and Devon
Kent
London and the South East
Essex
Hertfordshire and Home Counties
Midlands Fraud Group and Chief Internal Auditors and County Networks
North West Fraud Groups
Yorkshire Groups
North East and North Regional Fraud Group

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James Flannery
Jamie Ayling
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David Hill
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Jonathan Dodswell
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Shelley Etherton
Gary Taylor
Nick Jennings
Ken Johnson
Mark O'Halloran
Paul Bicknell
Lauren Ashdown
Steven Graham
Matt Drury
Gillian Martin
Sara Essex
Sally Anne Pearcey
Paula Hornsby
Rachel Worsley
Nikki Soave
Francesca Doman
Andrew Reeve
Jason Pengilly
Paul Bradley
Professor Alan Doig
Sean Turley
Neil Masters
Dan Matthews
Scott Reeve
Corinne Gladstone
Louise Baxter
Keith Rosser
Ben Russell
Philip Juhasz
Paddy O'Keefe
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Andy Hyatt – Royal Borough of Kensington and Chelsea

**

And all those who attended the workshops, provided feedback, responded to surveys and who took up the actions after the workshops.

Section 5

Glossary and documents

NAFN – National Anti-Fraud Network
CIPFA – Chartered Institute of Public Finance and Accountancy
Cifas – UK's fraud prevention service
NECC – National Economic Crime Centre
NCA – National Crime Agency
MHCLG – Ministry of Housing, Communities and Local Government

ONS: www.ons.gov.uk/peoplepopulationandcommunity/crimeandjustice/bulletins/crimeinenglandandwales/yearendingseptember2019#fraud
www.gov.uk/government/publications/economic-crime-plan-2019-to-2022
National Fraud Authority, Annual Fraud Indicator, March 2013
National Fraud Authority - Good practice publication: www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/
Economic Crime Plan 2019: www.gov.uk/government/publications/economic-crime-plan-2019-to-2022
Eliminating Public Sector Fraud: www.cabinetoffice.gov.uk/sites/default/files/resources/eliminating-public-sector-fraud-final.pdf
Smarter Government: www.homeoffice.gov.uk/publications/agencies-public-bodies/nfa/our-work/smarter-government-report
Local Government Association Counter Fraud Hub: www.local.gov.uk/counter-fraud-hub
Veritau: veritau.co.uk/aboutus
SWAP Internal Audit Services: www.swapaudit.co.uk
Devon Audit Partnership: www.devonaudit.gov.uk

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RYEDALE
DISTRICT
COUNCIL



COUNTER FRAUD & CORRUPTION STRATEGY

2020 - 2024

Forward by the Chief Executive

Ryedale is a great place to work, live and visit. We are blessed with an amazing natural environment, vibrant market towns, and diverse industries. Our Council strives to be innovative, enterprising, nurturing, supporting, and to provide value for money for our residents.

The Council is funded by public money, through council tax, business rates and other sources. Fraud against the Council is effectively theft from the people who live and conduct business in our community. Money lost to fraud is funding that cannot be spent on providing services to residents.

In our Council Plan 2020-2024 we have set out our aims and objectives which are to support our communities, harness our diverse economy, and create a safe, attractive and environmentally sustainable place to live. Fraud against the Council undermines our ability to meet these aims.

Our message is simple and straightforward, the Council will not tolerate any fraud or corruption against it!

We will seek to identify areas where fraud may occur and limit opportunities for fraudsters to exploit the Council. Where fraud is suspected we will investigate robustly, and where it is proved will utilise all measures available to us to deal with criminals and recover any losses.

Stacey Burlet
Chief Executive

Introduction

- 1 All organisations are at an increasing risk of fraud and corruption. In 2018 the number of fraud offences rose by 12% to 3.6 million which equates to one third of all crimes in the UK.¹ The most recent report into the cost of fraud against local authorities estimates it as being as high as £7.8 billion out of a total of £40.4 billion for the whole UK public sector.² The risk of fraud continues to grow and where fraud used to be undertaken at a local level, it increasingly originates nationally and internationally.
- 2 The full effects of the Covid-19 pandemic are not known at the time of drafting this strategy, however it is likely to have a considerable effect on public sector finances. The Council will have to continue to make changes to the way it works in order to provide effective services for its citizens and to achieve its overall aims. It is essential that the Council minimises losses caused by fraud, to help it achieve those aims and to maximise the money it has available to provide services.
- 3 This strategy outlines how the Council will assess the risks of fraud and corruption that it faces, strengthen its counter fraud arrangements, and tackle fraud where it occurs. It has been prepared to reflect the national collaborative counter fraud strategy for local government in the UK, Fighting Fraud & Corruption Locally – A Strategy for the 2020s.
- 4 The strategy has been reviewed by the Overview and Scrutiny Committee as part of its responsibility for maintaining and promoting a high standard of conduct in the transaction of Council business.

Our aim

- 5 Fighting Fraud & Corruption Locally recommends councils consider the effectiveness of their counter fraud framework by considering performance against the four key themes set out below. The Council's aim is that by 2024 it will have maintained and improved its arrangements in these areas.
 - **Govern** – Ensure that the Council has robust arrangements and executive support to ensure that anti-fraud, bribery and corruption measures are embedded throughout the organisation.
 - **Acknowledge** – Acknowledging and understanding fraud risks and committing support and resource to tackling fraud in order to maintain a robust anti-fraud response.

¹ Economic Crime Plan 2019-2023, HM Government

² Annual Fraud Indicator 2017, Crowe Clark Whitehill

- **Prevent** – Preventing and detecting more fraud by making better use of information and technology, enhancing fraud controls and processes and developing a more effective anti-fraud culture.
- **Pursue** – Punishing fraudsters and recovering losses, developing capability and capacity to investigate fraudsters.

Current arrangements and action required

- 6 The Council already has good arrangements in place that satisfy many of the recommendations made in the new national strategy. For example:
- the Council has a strong counter fraud policy framework in place (e.g. counter fraud and corruption, whistleblowing, and anti-money laundering policies) which are embedded throughout the organisation.
 - the risk of fraud is considered annually and this assists in setting priorities for counter fraud work.
 - control environments in high risk areas (e.g. financial systems) are regularly scrutinised by internal and external audit.
 - technology is used to detect fraud and to provide anti-fraud training to staff.
 - the council employs trained counter fraud professionals to investigate fraud and does not hesitate to take strong action where warranted.
- 7 However, as the capability and capacity of the Council to prevent and detect fraud has increased so has the ability and reach of fraudsters. It is easier today for a criminal to commit fraud remotely than it was when the last Council counter fraud strategy was adopted. It is therefore important to continue to develop counter fraud arrangements to meet this evolving threat.
- 8 The national FFCL strategy (see checklist at Appendix 2 of the FFCL strategy) recommends that the Councils should promote an anti-fraud culture within the organisation through regular training sessions with staff updating them on new and emerging threats. Councils should continue to develop their use of technology, e.g. data analytics and matching exercises, to help prevent and detect fraud. Councils should also share counter fraud news and results internally through a strategy endorsed by its communications team.
- 9 The FFCL board has formed a number of working groups across the country to look at different areas of counter fraud work to make recommendations to the board. The board may then convey these recommendations to central government. Councils should participate in these working groups regionally and nationally to promote counter fraud work.

- 10 The Council will publish its counter fraud priorities and actions on an annual basis as part of the counter fraud plan.

The counter fraud policy framework

- 11 This strategy is part of the Council's overall framework for countering the risks of fraud and corruption. Further detailed information can be found in other policies and procedures including:
- Counter Fraud and Corruption Policy - this sets out responsibilities for counter fraud and investigation work, the actions the council will take in response to fraud, and its policy on sanctions.
 - Anti-Money Laundering Policy - defines council responsibilities in respect of the Proceeds of Crime Act 2002 and Money Laundering Regulations 2007.
 - Whistleblowing Policy - arrangements for Council staff to raise concerns; confidentially if required.
- 12 The strategy also links to, and is supported by, wider Council policy and procedures covering areas such as:
- governance
 - employee disciplinary arrangements
 - codes of conduct
 - registers of interest
 - financial regulations
 - electronic communications
 - information security
 - cyber security

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Ryedale District Council - Fraud Risk Assessment (January 2021)

Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
<p>Council Tax & Business Rates Frauds (discounts and exemptions)</p> <p>Page 77</p>	<p>Council Tax fraud can be a common occurrence. CIPFA report that 81% of all local government related fraud, recorded as part of their annual survey, involved Council Tax or Business Rates payments. Single Occupancy Discount fraud accounted for £19.4m of loss due to fraud in 2018/19 according to the survey.</p> <p>Depending on the scheme, there are several ways in which fraud can occur. These include applicants providing false information and recipients failing to notify the Council when they no longer qualify.</p> <p>Revenue from Council Tax and Business Rates is a key income stream. Fraud in this area threatens this source of funding.</p>	<p>The Council employs a number of methods to help ensure only valid applications are accepted. This includes requiring relevant information on applications forms, visits to properties (where necessary) and an annual canvass requiring businesses to confirm that they continue to be entitled to a discount or exemption.</p> <p>Collection rates are compared against targets as a potential indicator of fraud. Controls including separation of duties between collection and administration, restriction of access to records and management oversight of action such as recovery suppressions help prevent internal fraud and error.</p> <p>Messages reminding residents and businesses to update their circumstances when necessary appear on annual bills issued by the Council.</p> <p>The Council routinely takes part in the National Fraud Initiative.</p>	<p>High</p>	<p>Counter fraud team regularly raise fraud awareness with staff in revenues and customer services teams about frauds affecting Council Tax and Business Rates.</p> <p>Continued periodic audit of the service help to monitor the effectiveness of the controls in place and work is planned for later this year.</p> <p>The counter fraud team has developed data matches to detect incorrectly received discounts and exemptions.</p>

Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
<p>Council Tax Support Fraud</p>	<p>Council Tax Support is a council funded reduction in liability introduced in 2013 to replace Council Tax Benefit. Unlike its predecessor, Council Tax Support is resourced entirely through Council funds. CIPFA's fraud tracker showed an 18% increase in the value of fraud in this area found in 2018/19.</p> <p>Frauds in this area can involve applicants failing to declare their total assets, correct household composition or household income. Those receiving support are also obligated to notify relevant authorities when they have a relevant change in circumstances that may affect their entitlement to support.</p> <p>Covid-19 has resulted in an increase nationally for benefits and support claims. These increased numbers raise the number of claims in which changes in circumstances may not be reported or false information could be presented to the Council.</p> <p>Fraudulently obtained Council Tax Support represents a loss of Council funds.</p>	<p>The Council undertakes eligibility checks on those who apply for support. There are established lines of communication with the Department for Work and Pensions where claims for support are linked to externally funded benefits.</p> <p>The Council is able to report Housing Benefit and other benefit frauds to the Department for Work and Pensions but this does not necessarily allow the Council control over resolving false claims for Council Tax Support.</p>	<p>High</p>	<p>Counter fraud team regularly raise awareness of fraud with staff processing claims for Council Tax Support.</p> <p>Concerns of fraud are reported to the counter fraud team who determine if criminal investigation is required. The counter fraud team can undertake joint working with the Department for Work and Pensions where it is mutually beneficial (e.g. joint claims for benefit).</p>

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Covid-19 Grants	<p>In response to the Covid-19 pandemic, central government initially made funding available for local businesses. Several schemes were created and administered by councils; some were linked to business rates liabilities while others were to assist those outside this scope. The Council had to respond quickly to support businesses and relevant government guidance was not always timely. New processes for managing applications and paying grants also had to be set up quickly.</p> <p>Further schemes were introduced to provide support to businesses during the Covid-19 tier system. In addition, schemes were introduced to aid residents unable to work due to self-isolation requirements and support families with children or vulnerable adults.</p> <p>These schemes have been subject to attempted fraud at a local, national and international level due to the significant funds available (up to £25k per application).</p> <p>While funding is provided by central government, the Council is charged</p>	<p>The council has processed over 2100 grant claims for the government's Small Business Grant Fund, Retail, Hospitality and Leisure Grant Fund, and Local Authority Discretionary Grant Fund. Checks by Council officers were made into each application to make sure they met the criteria set by government and that payments were being made to the correct people. Applications for ongoing business and resident support schemes continue to be carefully assessed by council officers before payment.</p> <p>The counter fraud team have circulated details of all known frauds occurring regionally and nationally to help prevent the Council falling victim to fraud.</p> <p>The Council provides monthly updates on payments made, fraud/error identified and the status of any resultant recovery work to the Department for Business, Energy & Industrial Strategy.</p>	High	<p>Any instances where an applicant provided false information to the Council are reported to the counter fraud team. Where appropriate, criminal investigations can take place. The Department for Business, Energy & Industrial Strategy have stated that Councils should conduct investigations where they have resources available.</p> <p>If the Council is targeted by a national fraud, this is reported to the National Investigation Service (NATIS) via the counter fraud team.</p> <p>The internal audit and counter fraud teams will undertake post-payment assurance exercises in 2021. Additionally, the Council will be taking part in the National Fraud Initiative in 2020/21 which will include data matches relating to grant payments.</p>

Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
	<p>with responsibility for identifying genuine applicants and investigating and recovering incorrect payments. The Council therefore needs to show that suitable assurance and recovery actions have taken place.</p>			
<p>Creditor Fraud</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 80</p>	<p>A range of frauds can be committed against the Council as a result of publically available creditor payment data. Criminals undertaking these types of fraud are often found to be operating from overseas.</p> <p>The most common issue is mandate fraud where fraudsters impersonate legitimate suppliers and attempt to divert payments by requesting changes in banking details. The counter fraud team has investigated instances where email accounts belonging to suppliers and creditors have been hacked and used to perpetrate mandate fraud. This makes this type of fraud much harder to detect.</p> <p>Other types of fraud in this area include whaling, where senior members of the Council are targeted</p>	<p>The Council has a number of controls in place to identify fraudulent attempts to divert payments from genuine suppliers and to validate any requests to change supplier details. This includes contacting companies to confirm that any requested change of bank account details for payments is genuine.</p> <p>Internal Audit undertake periodic reviews of the controls.</p>	<p>High</p>	<p>The counter fraud team undertake work to raise staff awareness of these types of frauds. Increased awareness provides greater chances of stopping fraudulent attempts before losses occur.</p> <p>All instances of creditor related fraud reported to the counter fraud team will be reported to the police's Action Fraud Unit, National Cyber Security Centre and directly to the host from where any false emails originated from.</p>

Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
	and impersonated in order to obtain fraudulent payments. With increased remote working due to Covid-19, there are increased opportunities for fraudsters to impersonate budget holders or suppliers in electronic communications to divert funds.			
<p>Cybercrime</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 81</p>	<p>Cybercrime is a constantly evolving area where criminals are continually refining their techniques in order to overcome controls put in place to protect organisations, to obtain unauthorised access and information, and to frustrate systems.</p> <p>Types of cybercrime experienced by local authorities in recent years include ransomware, phishing, whaling, hacking, and denial of service attacks. Attacks can lead to loss of funds or systems access/data, impacting service delivery.</p> <p>A council in the North East suffered a major cyberattack in early 2020 which resulted in a disruption to services and significant costs to recover them.</p>	<p>The Council has a highly skilled ICT department which helps mitigate the threat of cybercrime.</p>	<p>High</p>	<p>Raising awareness with staff can be crucial in helping to prevent successful cyberattacks. Any counter fraud training delivered will reinforce anti-cybercrime messages to members of staff.</p> <p>This area is kept under review by Internal Audit as part of its IT audit work programme.</p>
<p>Procurement Fraud</p>	<p>Procurement fraud has been perceived as a high risk by local authorities in the CIPFA fraud tracker for a number of years.</p>	<p>The Council has established Contract Procedure Rules. The rules are reviewed regularly and ensure the requirement for a competitive process</p>	<p>High</p>	<p>Continued vigilance by relevant staff is key to identifying and tackling procurement fraud. The counter fraud team will continue to</p>

Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
	<p>Procurement fraud, by its nature, is difficult to detect but can result in large scale loss of public funds over long periods of time. The Competition and Markets Authority estimates that having a cartel within a supply chain can raise prices by 30% or more.</p> <p>CIPFA reported losses of £20.3 million in 2018/19 for local authorities, due to procurement fraud. It found that 12% of fraud detected in this area involved 'insider fraud' and 5% involved organised crime.</p> <p>In response to the effects on businesses as a result of Covid-19, the government issued a Procurement Policy Notice in February 2020. This introduced a supplier relief scheme to support Council suppliers during and after the outbreak to ensure service continuity. The Council has the responsibility for monitoring these funds to ensure businesses which were being supported did not profit while services were not provided. An 'open book accounting' process has therefore been required. Fraud could occur where suppliers may provide</p>	<p>(where required) through an e-tender system. The Council works in partnership with North Yorkshire County Council and through this arrangement has access to a team of procurements specialist who provide guidance and advice.</p> <p>A tendering and evaluation framework is in operation to help prevent fraud. It also sets out the requirements for declarations of interest to be made.</p> <p>Contract monitoring is implemented to help detect and deter fraud.</p> <p>Internal audit issued a guidance document and have offered further support in relation to the new supplier relief scheme.</p>		<p>provide training to raise awareness of fraud risks in this area.</p> <p>Counter fraud team and internal audit will monitor guidance on fraud detection issued by the Competition and Markets Authority and other relevant bodies.</p> <p>Periodic audit of this area to ensure procedures are up to date and adhered to should continue.</p> <p>Potential abuses of the supplier relief should be reported to the counter fraud team for further investigation. Internal Audit will provide further support with the Council's supplier relief process.</p>

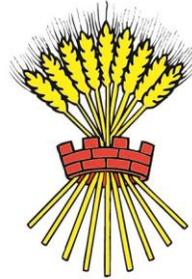
Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
	false information about profit/loss and their costs.			
Theft of Assets	<p>The theft of assets can cause financial loss and reputational damage. It can also negatively impact on employee morale and disrupt the delivery of services. The Council owns large numbers of physical items, such as IT equipment, vehicles and tools.</p> <p>Reduction of staff at Council premises during the Covid-19 outbreak could leave equipment at heighten risk of theft. Unauthorised access to buildings may not face the same level of visibility or challenge as would be the case in normal conditions.</p>	<p>Specific registers of physical assets (e.g. capital items, property and ICT equipment) are maintained. In addition, there are registers for information assets held by the Council.</p> <p>The Council's whistleblowing arrangements provide an outlet for reporting concerns of theft.</p>	High	Members of staff should also be vigilant and report all possible thefts promptly to the Police and counter fraud team.
Internal Fraud	<p>There are a range of potential employee frauds including falsifying timesheets and expense claims, abusing flexitime or annual leave systems, undertaking alternative work while sick, or working for a third party on Council time. Some staff have access to equipment and material that may be misused for private purposes.</p> <p>With increased staff working remotely, working hours and associated claims may be more difficult to monitor. It is essential that these issues are tackled</p>	<p>The Council has an established whistleblowing policy through which concerns can be raised.</p> <p>Controls are in place surrounding flexitime, annual leave and sickness absence.</p> <p>Participation in the National Fraud Initiative helps the Council identify potential cases of internal fraud.</p>	Medium	The counter fraud team investigate any suspicions of corruption while internal audit ensure that appropriate checks and balances are in place to help prevent it.

Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
Payroll Fraud	<p>as they can cause reputational damage and affect staff morale and performance.</p> <p>Payroll related fraud can involve the setting up of 'ghost' employees in order to divert salary payments to others.</p> <p>Corruption and bribery is a significant risk to all public sector organisations, however, only low levels have ever been detected.</p>			
Recruitment Fraud	<p>Recruitment fraud can affect all organisations. Applicants can provide false or misleading information in order to gain employment such as bogus employment history and qualifications or providing false identification documents to demonstrate the right to work in the UK.</p>	<p>The Council has a strong range of controls in place to mitigate the risk of fraud in this area.</p>	Medium	<p>Where there is a suspicion that someone has provided false information to gain employment, the counter fraud team will be consulted on possible criminal action in tandem with any disciplinary action that may be taken.</p> <p>This area is kept under periodic review by the internal audit team.</p>
Fraudulent Insurance Claims	<p>The Council may receive exaggerated or fabricated insurance claims. CIPFA report that in 2019 the average value of a fraudulent claim against local authorities was over £39.5k.</p>	<p>While insurance fraud is common, the burden of risk is currently shouldered by the council's insurers who have established fraud investigation systems.</p>	Low	n/a

Risk Area	Risk Description	Risk Controls	Risk Category	Risk Mitigation
Treasury Management	The impact of losses in this area could be significant. There are no recorded frauds within the council.	Systems are well controlled and subject to periodic internal audit review.	Low	n/a

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RYEDALE
DISTRICT
COUNCIL



COUNTER FRAUD POLICY

1 Introduction

- 1.1 All organisations are at increasing risk of fraud and corruption. Some commentators estimate that annual fraud losses to local government in the UK could be £7.8 billion. It is therefore a risk that the council cannot and should not ignore.
- 1.2 Any fraud committed against the council effectively constitutes a theft of taxpayer's money. It is unlawful and deprives the council of resources which should be available to provide services to the public. By putting in place effective measures to counter the risk of fraud and corruption the council can reduce losses which impact on service delivery as a contribution to the achievement of overall council priorities.
- 1.3 This document sets out the council's policy in relation to fraud and corruption perpetrated against it, and its overall arrangements for preventing and detecting fraud. It includes the fraud and corruption prosecution policy contained in Appendix A. It forms part of the council's overall policy framework for combating fraud and corruption and should be read in conjunction with the counter fraud strategy, constitution, the financial regulations, contract procedure rules, the whistleblowing policy, anti-money laundering policy and disciplinary procedures.

2 Definitions and Scope

- 2.1 For the purpose of this policy, the term fraud is used broadly to encompass:
- acts which would fall under the definition in the Fraud Act (2006)
 - anything which may be deemed fraudulent in accordance with the generally held view of fraud as causing loss or making a gain at the expense of someone by deception and dishonest means
 - any offences which fall under the Social Security Administration Act (1992) and the Council Tax Reduction Schemes Regulations (2013)
 - any act of bribery or corruption including specific offences covered by the Bribery Act (2010)
 - acts of theft
 - any other irregularity which is to the detriment of the council whether financially or otherwise, or by which someone gains benefit they are not entitled to.
- 2.2 This policy does not cover fraud or corruption against third parties, except where there may be an impact on the service provided by the council. In addition, it does not cover other acts – for example offences involving violence - which may affect the council, and which should in most cases be reported directly to the police.

3 Principles

- 3.1 The council will not tolerate fraud or corruption in the administration of its responsibilities, whether perpetrated by members, officers, customers of its services, third party organisations contracting with it to provide goods and/or services, or other agencies with which it has any business dealings. There is a basic expectation that members, employees, and contractors' staff will act with integrity and with due regard to matters of probity and propriety, the requirement to act lawfully and comply with all rules, procedures and practices set out in legislation, the constitution, the council's policy framework, and all relevant professional and other codes of practice.
- 3.2 The council will seek to assess its exposure to risks of fraud and corruption. It will prioritise resources available to prevent and deter fraud in order to minimise this risk.
- 3.3 The council will consider any allegation or suspicion of fraud seriously, from whatever source, and if appropriate will undertake an investigation to confirm whether fraud has occurred and determine the appropriate outcome. Any investigation will be proportionate. The council may refer any incident of suspected fraud to the police or other agencies for investigation, if appropriate.
- 3.4 To act as a deterrent, the council will take action in all cases where fraud (or an attempt to commit fraud) is proved, in proportion to the act committed. This may include prosecution, application of internal disciplinary procedures, or any other action deemed appropriate to the offence (for example referral to a professional body). Prosecution decisions will be made in accordance with the fraud and corruption prosecution policy (Appendix A).
- 3.5 As a further deterrent, and to minimise losses, the council will attempt to recover any losses incurred through civil or legal action. In addition, the council will seek to apply any appropriate fines or penalties, and recover any costs incurred in investigating and prosecuting cases.

4 Responsibilities

- 4.1 Overall responsibility for this policy rests with the council's Chief Finance Officer (section 151 officer) on behalf of the council in accordance with the council's constitution.
- 4.2 The Overview and Scrutiny Committee has a responsibility to provide advice to the council on issues arising out of fraud investigations and to report any remedial or preventative action that has or which ought to be

- taken by the council in relation to such matters. It also monitors the application of council policies on whistle-blowing and counter fraud & corruption and can consider any matter referred to it in accordance with the council's whistle-blowing policy and procedures.
- 4.3 The Strategic Management Board (SMB) has a responsibility for ensuring that the council has effective fraud and corruption procedures embedded across the organisation that comply with best practice and good governance standards and requirements.
 - 4.4 Veritau (who provide internal audit and counter fraud services to the council) is responsible for reviewing the council's counter fraud and corruption policies on a regular basis and for recommending any required changes to those policies. In addition, Veritau leads on fraud prevention and detection issues for the council and is responsible for investigating suspected cases of fraud or corruption. The internal audit team carries out audit work to ensure that systems of control are operating effectively, which contributes to the reduction in opportunities for committing fraud. The Head of Internal Audit is required to report his/her professional opinion on the council's control environment to members of the Overview and Scrutiny Committee on an annual basis in accordance with proper practice.
 - 4.5 The council's Chief Finance Officer is required to ensure the council has appropriate systems of control in place to prevent and detect fraud. All senior managers have a responsibility for preventing and detecting fraud within their service areas. This includes maintenance of effective systems of internal control and ensuring that any weaknesses identified through the work of internal audit or by other means are addressed promptly.
 - 4.6 The council's Chief Finance Officer (section 151 officer) is the council's nominated officer for the purposes of the Money Laundering Regulations (2007), and has a statutory responsibility for reporting any issues referred in this capacity.
 - 4.7 All staff have a general responsibility to be aware of the possibility of fraud and corruption, and to report any suspicions that they may have to Veritau. Where appropriate, staff may use the whistleblowing policy to raise concerns anonymously.
 - 4.8 Officers within human resources have a responsibility to support service departments in undertaking any necessary disciplinary process after consultation and initial investigation, where appropriate, by Veritau.

5 Overall Counter Fraud Arrangements

Introduction

- 5.1 The purpose of this section is to set out the council's overall framework for countering the risk of fraud and corruption. While the council aims to follow best practice in relation to counter fraud activity¹, it recognises that new and emerging fraud risks will require a dynamic approach to fraud prevention and detection.

Measurement

- 5.2 The council will assess the potential risks and losses due to fraud and corruption, and will use these to prioritise counter fraud activity, and review the resources available to counter those risks. The review will include an assessment of actual levels of fraud² and the effectiveness of counter fraud activity in reducing losses. The outcome of this review will be reported to the Overview and Scrutiny Committee on an annual basis as part of the audit and fraud planning cycle.

Culture

- 5.3 The council will promote a culture whereby all staff, members, service users, and contractors are aware that fraud or corruption in any form is unacceptable. To do this, it will:
- ensure that there are clear arrangements in place for reporting suspicions about potential fraud or corruption, whether that be by staff, council members, partners, stakeholders, contractors or members of the public;
 - investigate reported suspicions and where evidence of fraud or corruption is found will prosecute where appropriate and take any other action necessary in accordance with the financial regulations, contract procedure rules, fraud and corruption prosecution policy, disciplinary procedures, members code of conduct, or any relevant legislation or guidance;
 - ensure that the consequences of committing fraud and/or partaking in corrupt practices are widely publicised.

¹ For example the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption.

² All suspected fraud should be reported to Veritau. A record of all such information will be maintained on a confidential basis.

Prevention and Detection

Controls

- 5.4 As part of its ongoing operating procedures, the council seeks to ensure that proper systems of internal control are in place. This includes controls to directly prevent and detect fraud, such as separation of duties and management review, along with other procedures such as vetting as part of recruitment processes and systems for declaration of interests and gifts and hospitality. The effectiveness of systems of control are monitored and a formal report is made as part of the process for preparing the annual governance statement. The council maintains a system of internal audit to provide independent review of control systems on an ongoing basis, in accordance with a risk assessment.
- 5.5 Services will be encouraged to consider the risk of fraud as part of the council's risk management process. Any information on risks identified will be used to inform the annual review of counter fraud activity.

Proactive Work

- 5.6 The council will carry out targeted project work (for example data matching exercises) to identify fraud and corruption in known high risk areas. This work will be carried out by Veritau as part of its annual workplan. Work will be prioritised based on a risk assessment as part of the annual review of counter fraud activity. Work may include joint exercises with other agencies, including other local councils.
- 5.7 The council will take part in projects led by other agencies such as the Cabinet Office and the DWP to identify potential fraud e.g. the National Fraud Initiative. Resources will be allocated to follow up all data matches as part of audit and fraud workplans. Veritau will work with service departments to ensure that they are aware of the need to include notices to service users stating that any data held may be subject to use for data matching purposes.

Relationships

- 5.8 The council has established relationships with a number of other agencies. It will continue to develop these relationships and develop new ones to further the prevention and detection of fraud. Organisations which the council will work with include:
- the police
 - the courts
 - the Cabinet Office

- the Department for Communities and Local Government
- the Department for Works and Pensions
- other councils
- community groups

5.9 Veritau will work with council departments to ensure that systems for reporting and investigating suspected fraud and corruption are robust.

Fraud Awareness Training

5.10 As part of its annual workplan, Veritau will provide targeted fraud awareness training to specific groups of staff, based on its annual risk assessment.

Investigation

5.11 All suspected cases of fraud, corruption, theft or other irregularity will be investigated. The nature of each investigation will depend on the circumstances of each case. Veritau will act as a first port of call for any suspected fraud and will provide advice on whether other agencies should be notified (eg the police). Veritau will determine the extent of the investigation to be carried out in consultation with the Chief Finance Officer (s151), service departments and human resources. Where necessary, Veritau may refer cases to other agencies (for example the police) at the discretion of the Head of Internal Audit.

5.12 All staff involved in the investigation of fraud will be appropriately trained. They will be required to comply with any relevant legislation, codes of practice, and government guidance. For example the Police and Criminal Evidence Act (PACE), Regulation of Investigatory Powers Act (RIPA), the Data Protection Act, the Criminal Procedures Investigations Act (CPIA), and practitioner's guidance from the Attorney General. Investigators will take into account the individual circumstances of anyone involved in an investigation and adjustments to procedure will be made where necessary to ensure that all parties are treated equitably (where it is appropriate and reasonable to do so).

5.13 As part of the outcome of every investigation, a review of any weaknesses in control will be made and if necessary recommendations will be made to address any issues identified. These will be set out in a formal report to the managers of the service concerned, and will be followed up to ensure the issues are addressed.

5.14 The Head of Internal Audit will ensure that systems for investigating fraud are reviewed on an ongoing basis, to ensure that they remain up to date and comply with good practice.

Publicity

- 5.15 The council will publicise all successful prosecutions undertaken either by itself or by partner organisations, to act as a deterrent against future fraud.
- 5.16 In addition, where appropriate, targeted publicity will be used to raise the awareness of fraud to staff, members, the public, and other agencies. This will consist of both internal and external publicity and will aim to:
- raise awareness about potential fraud and ensure all stakeholders are alert to the possibilities of fraud;
 - inform all stakeholders of the procedures to be followed if they have suspicions of fraud;
 - ensure that all stakeholders are aware that the council will not tolerate fraud and the consequences of committing fraud against it.

Recovery of Monies

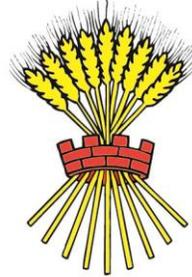
- 5.17 Where any loss has been incurred by the council or additional costs have been incurred as a result of fraud or corruption, the council will seek to recover these from the individual or organisation concerned. This will help to ensure that the financial impact of fraud on the council is minimised and act as a deterrent. As a further deterrent, the council will seek to levy any appropriate fines or penalties where it is possible and desirable to do so.
- 5.18 Methods of recovery may include (but are not limited to):
- recovery from assets held by the organisation or individual (using the Proceeds of Crime Act or any other relevant legislation);
 - bankruptcy where appropriate;
 - recovery from future salary payments if an individual remains an employee of the council;
 - recovery of pension contributions from employees or members who are members of the North Yorkshire Pension Fund.

6 Monitoring & Review Arrangements

- 6.1 The arrangements set out in this policy document will be reviewed on an annual basis as part of the audit and fraud planning cycle and will include the fraud and corruption prosecution policy (Appendix A) and other related guidance. Veritau will work with other departments to ensure that other related guidance and policy (such as the whistleblowing policy) are reviewed on a regular basis and any amendments or necessary changes are reported to members for approval.

LAST REVIEWED AND UPDATED: 21 January 2021

RYEDALE
DISTRICT
COUNCIL



FRAUD AND CORRUPTION PROSECUTION POLICY

1 Scope and Purpose

- 1.1 The fraud and corruption prosecution policy forms part of the council's overall counter-fraud and corruption strategy. The policy covers all acts, and/or attempted acts, of fraud or corruption committed by officers or members of the council, or committed by members of the public, or other organisations or their employees, against the council.
- 1.2 The policy sets out the circumstances in which the council will take legal action against the perpetrators of fraud or corruption. It also sets out the circumstances when it is appropriate to consider alternative courses of action such as offering a caution. The policy does not cover internal disciplinary procedures which are the subject of the council's separate disciplinary policy and procedures.
- 1.3 This policy should be read in conjunction with the council's constitution, financial regulations, contract procedure rules, the counter fraud and corruption policy and the strategy, the whistleblowing policy and the council's disciplinary policy and procedures.
- 1.4 The policy contains specific guidelines for determining the most appropriate course of action when fraud has been identified. Offences other than fraud and corruption (for example those relevant to the enforcement of regulations) are dealt with by the appropriate service departments under other policies and relying on specific legal powers.

2 Principles

- 2.1 The council is committed to an effective anti-fraud and corruption strategy. The strategy is designed to encourage the prevention and detection of fraud and corruption. As part of the strategy the council is also committed to taking appropriate action against anyone believed to have attempted and/or committed a fraudulent or corrupt act against it. The council considers that those guilty of fraud or corruption must take responsibility for their actions before the courts.
- 2.2 The policy is designed to ensure that the council acts fairly and consistently when determining what action to take against the perpetrators of fraud or corruption.
- 2.3 Staff and members who are found to have committed fraud or corruption may be prosecuted in addition to such other action(s) that the council may decide to take, including disciplinary proceedings in the case of staff and referral to the relevant officer or body in the case of members. Any decision not to prosecute a member of staff for fraud and corruption does not preclude remedial action being taken by the relevant director(s)

in accordance with the council's disciplinary procedures or other policies.

- 2.4 This Policy is also designed to be consistent with council policies on equalities. The council will be sensitive to the circumstances of each case and the nature of the crime when considering whether to prosecute or not.
- 2.5 The consistent application of the policy will provide a means for ensuring that those who have perpetrated fraud and corruption are appropriately penalised. It will also act as a meaningful deterrent to those who are contemplating committing fraud or corruption. The council recognises the deterrent value of good publicity and therefore information regarding successful prosecutions and sanctions will be made public.
- 2.6 Any decision taken by an authorised officer to prosecute an individual or to offer a formal sanction will be recorded in writing. The reason for the decision being taken will also be recorded.
- 2.7 Irrespective of the action taken to prosecute the perpetrators of fraud and corruption, the council will take whatever steps necessary to recover any losses incurred, including taking action in the civil courts.

3 Prosecution

- 3.1 The policy is intended to ensure the successful prosecution of offenders in court. However, not every contravention of the law should be considered for prosecution. The council will weigh the seriousness of the offence (taking into account the harm done or the potential for harm arising from the offence) with other relevant factors, including the financial circumstances of the defendant, mitigating circumstances and other public interest criteria. All cases will be looked at individually and be considered on their own merit.
- 3.2 To consider a case for prosecution the council must be satisfied that two tests have been passed. Firstly, there must be sufficient evidence of guilt to ensure conviction. This is called the **evidential test**. Secondly, it must be in the public interest to proceed – the **public interest test**.
- 3.3 To pass the evidential test, authorised officers must be satisfied that there is a realistic prospect of conviction based on the available evidence (that is, there must be sufficient admissible, substantial and reliable evidence to secure a conviction).
- 3.4 To pass the public interest test, the authorised officer will balance, carefully and fairly, the public interest criteria against the seriousness of

the offence. The public interest criteria include;

- the likely sentence (if convicted);
- any previous convictions and the conduct of the defendant;
- whether there are grounds for believing the offence is likely to be repeated;
- the prevalence of the offence in the area;
- whether the offence was committed as a result of a genuine mistake or misunderstanding;
- any undue delay between the offence taking place and/or being detected and the date of the trial;
- the likely effect that a prosecution will have on the defendant;
- whether the defendant has put right the loss or harm caused.

3.5 It will generally be in the public interest to prosecute if one or more of the following factors applies, subject to any mitigating circumstances;

- the actual or potential loss to the council was substantial;
- the fraud has continued over a long period of time;
- the fraud was calculated and deliberate;
- the person has previously committed fraud against the council (even if prosecution did not result) and/or there has been a history of fraudulent activity;
- the person was in a position of trust (for example, a member of staff);
- there has been an abuse of position or privilege;
- the person has declined the offer of a caution or financial penalty;
- the case has involved the use of false identities and/or false or forged documents.

3.6 Investigating officers and prosecutors will review the appropriateness of pre-charge engagement where prosecution is considered³. This is likely to occur where such engagement may lead the defendant to volunteer additional information that may identify new lines of inquiry. Pre-charge engagement may be instigated by the investigating officer, the council prosecutor, the defendant's representative or a defendant themselves (if

³ Pre-charge engagement was recommended in the Attorney General's 'Guidance on Disclosure 2020'.

unrepresented).

4 Mitigating Factors

- 4.1 The following mitigating factors will be taken into account when determining whether to prosecute;

Voluntary Disclosure

- 4.2 A voluntary disclosure occurs when an offender voluntarily reveals fraud about which the council is otherwise unaware. If this happens, then the fraud will be investigated but the offender will not be prosecuted unless in exceptional circumstances. However, any person colluding in the crime will still be prosecuted. A disclosure is not voluntary if the:-

- admission is not a complete disclosure of the fraud;
- admission of the fraud is made only because discovery of the fraud is likely, (for example, the offender knows the council is already undertaking an investigation in this area and/or other counter fraud activity);
- offender only admits the facts when challenged or questioned;
- offender supplies the correct facts when making a claim to Legal Aid.

Ill Health or Disability

- 4.3 Where the perpetrator (and/or their partner) is suffering from prolonged ill health or has a serious disability or other incapacity then the offender will not normally be prosecuted. Evidence from a GP or other doctor will be requested if the condition is claimed to exist, unless it is obvious to the investigator. It is also necessary to prove that the person understood the rules governing the type of fraud committed and was aware that their action is wrong. This may not be possible where, for instance, the offender has serious learning difficulties. However, simple ignorance of the law will not prevent prosecution.

Social Factors

- 4.4 A wide range of social factors may make a prosecution undesirable. The test is whether the court will consider the prosecution undesirable, and go on to reflect that in the sentence.

Exceptional Circumstances

- 4.5 In certain exceptional circumstances the council may decide not to prosecute an offender. Such circumstances include;
- the inability to complete the investigation within a reasonable period of time;
 - the prosecution would not be in the interests of the council;
 - circumstances beyond the control of the council make a prosecution unattainable.

5 Alternatives to Prosecution

- 5.1 If some cases are considered strong enough for prosecution but there are mitigating circumstances which cast a doubt as to whether a prosecution is appropriate then the council may consider the offer of a sanction instead. The two sanctions available are;
- a caution, or;
 - financial penalty.

Simple Cautions

- 5.2 A simple caution is a warning given in certain circumstances as an alternative to prosecution, to a person who has committed an offence. All cautions are recorded internally and kept for a period of six years. Where a person offends again in the future then any previous cautions will influence the decision on whether to prosecute or not.
- 5.3 For less serious offences a simple caution will normally be considered where all of the following apply;
- there is sufficient evidence to justify instituting criminal proceedings;
 - the person has admitted the offence;
 - there is no significant public requirement to prosecute;
 - it was a first offence, and;
 - a financial penalty is not considered to be appropriate.

Only in very exceptional circumstances will a further caution be offered for a second or subsequent offence of the same nature.

- 5.4 Cautions will be administered by the Head of Internal Audit (or deputy), Assistant Director – Corporate Fraud, Corporate Fraud Manager, or a

senior corporate fraud investigator. If a caution is offered but not accepted then the council will usually consider the case for prosecution. In such cases the court will be informed that the defendant was offered a penalty but declined to accept it.

Financial Penalties

5.5 The Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013, permit a financial penalty to be offered to claimants as an alternative to prosecution. The penalty is set at 50% of the amount of the excess reduction, subject to a minimum of £100 and a maximum of £1000. Once a penalty is accepted, the claimant has 14 days to change their mind.

5.6 Subject to the thresholds set out in the guidelines below, a financial penalty will normally be offered by the council in the following circumstances;

- the council believes that there is sufficient evidence to prosecute;
- it was a first offence or a previous offence was dealt with by way of a caution, and;
- in the opinion of the council, the circumstances of the case mean it is not overwhelmingly suitable for prosecution, and;
- the claimant has the means to repay both the overpayment and the penalty, and;
- there is a strong likelihood that both the excess reduction and the penalty will be repaid.

5.7 It is important to note that the claimant does not need to have admitted the offence for a financial penalty to be offered. Financial penalties will be administered by the Head of Internal Audit (or deputy), Assistant Director – Corporate Fraud, Corporate Fraud Manager, or a senior corporate fraud investigator. If a financial penalty is not accepted or is withdrawn then the council will usually consider the case for prosecution. In such cases the court will be informed that the defendant was offered a penalty but declined to accept it.

6 Proceeds of Crime Act 2002 (POCA)

6.1 In addition to the actions set out in this policy, the council reserves the right to refer all suitable cases for financial investigation with a view to applying to the courts for restraint and/or confiscation of identified

assets. A restraint order will prevent a person from dealing with specific assets. A confiscation order enables the council to recover its losses from assets which are found to be the proceeds of crime.

7 Implementation Date

- 7.1 This revised policy is effective from 21 January 2021 and covers all decisions relating to prosecutions and sanctions after this date.

POLICY LAST REVIEWED AND UPDATED: 21 January 2021



REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	21 JANUARY 2021
REPORT OF THE:	CHIEF FINANCE OFFICER (s151) ANTON HODGE
TITLE OF REPORT:	INTERNAL AUDIT PLAN 2021/22 - CONSULTATION
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 The purpose of the report is to seek members' views on risk areas that should be considered a priority for audit in 2021/22, to help inform the preparation of the annual internal audit plan.

2.0 RECOMMENDATION(S)

- 2.1 Members are asked to identify any specific risk areas which they believe should be considered a priority for audit in 2021/22.

3.0 REASON FOR RECOMMENDATION(S)

- 3.1 To ensure audit resources are targeted to key risk areas and to help inform the overall internal audit planning process.

4.0 SIGNIFICANT RISKS

- 4.1 To comply with proper practice requirements for internal audit, the views of the committee on council strategies, key business objectives, associated risks and risk management processes should be considered in planning internal audit work.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 The work of internal audit is governed by the Accounts and Audit Regulations 2015 and relevant professional standards. These include the Public Sector Internal Audit Standards (PSIAS), Cipfa guidance on the application of those standards in Local Government and the Cipfa Statement on the role of the Head of Internal Audit.

6.0 REPORT DETAILS

- 6.1 In accordance with the PSIAS, and as acknowledged in the council's audit charter, *"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."*
- 6.2 The council's audit charter requires internal audit to draw up an indicative audit plan each financial year. The plan must be based on an assessment of risk. The plan is also informed by a number of factors such as the council's risk registers, relevant national issues and our wider audit knowledge including the results of recent audit work. The council's external auditors are also consulted to avoid possible duplication of work programmes, and to maximise the overall benefit of audit activity. The draft plan will be presented to the next Overview and Scrutiny Committee in April 2021, for approval.
- 6.3 Internal audit plans cover a range of risk areas to ensure that the work undertaken enables the team to meet the requirement to provide an overall opinion on the governance, risk management, and control framework operating in the council. These include areas such as:
- **Strategic risks** – for example those included as key risk areas in the corporate risk register, the successful management of which are fundamental to the ongoing success of the council
 - **Corporate and cross-cutting areas** – covering areas such as governance, performance, projects and risk
 - **Fundamental / material systems** – which represent a high level of inherent risk due to the value and volumes of transactions processed
 - **Specific service reviews** – particularly those which make a significant contribution to corporate objectives and where weaknesses may represent a significant risk
 - **Technical / projects** – those areas of a technical nature and/or where project management is involved. These areas are key to the council as the risks involved could detrimentally affect the delivery of services.
 - **Value for money and efficiency**
- 6.4 The standards require that internal audit independently forms a view on the risks facing the council and work to be included in the audit plan. However, there is also a requirement to take into account the views of the Overview and Scrutiny Committee and senior council officers in forming that view. This requirement is set out explicitly at paragraph 5.2 of the audit charter which states that internal audit should *"draw up an indicative risk based audit plan on an annual basis following consultation with the Overview and Scrutiny Committee and senior management"*. Some further background information on the standards is included in Appendix 1.
- 6.5 Internal audit is currently at the initial stage of planning work for 2021/22. Consultation with officers has already begun and further meetings will be held in February and March 2021. The planning process will, as usual, take into account those criteria listed at paragraph 6.3 but will also take account of the impact of the coronavirus on the Council both in terms of the requirement to reprioritise its work and also the impact on internal audit delivery during 2020/21. The purpose of this report is to seek the views of the committee on key risks facing the council, and areas they feel should be considered for audit review in 2021/22 so that any views can be factored into the planning process.

- 6.6 The coronavirus pandemic has undoubtedly had a significant and sustained impact on the operations of the council. It is inevitable that the effects of Covid-19 will carry on into 2021/22, and almost certainly beyond. At the same time, the council is facing significant uncertainty surrounding local government reorganisation (LGR) and the implications of Brexit. Risks arising from the council's external environment are particularly high profile at the moment and they have changed, or have the potential to change, the context in which the council operates. However, it is important that all of the areas referenced at paragraph 6.3 are considered as these remain the appropriate criteria for prioritising audit resources.
- 6.7 Table 1 on the following page includes some initial ideas on possible areas for consideration. This is included to prompt discussion and is not intended to be a definitive or complete list of areas that could be reviewed. Additional detail has been provided for a number of suggested audit areas to set out potential areas of focus, and to illustrate how the key risks around Covid-19, LGR, and Brexit can and will be incorporated into the audit plan for 2021/22. It is also important to emphasise that the audits included in the draft plan when it is presented to this committee in April 2021 are not fixed. Instead, the plan will be kept under review to ensure that audit resource is deployed on areas of greatest risk and importance to the council.

Table 1: initial ideas for audit priorities for 2021/22

Area	Possible Work
Strategic risks / Corporate & cross-cutting	<ul style="list-style-type: none"> • Areas of the council's corporate governance framework (e.g. schemes of delegation, constitution, complaints process, standards) • Strategic planning (e.g. policies and procedures, the Council Plan, Covid-19 recovery, preparedness for local government reorganisation) • Risk management • Business continuity and disaster recovery • Health and safety (e.g. service risk assessments, health surveillance, accident and incident reporting) • Asset management • Performance management and data quality • Financial resilience / Medium Term Financial Plan • Partnership working • Procurement and contract management (including supply chain resilience, due diligence, Modern Slavery Act compliance) • HR and organisational development / workforce planning (e.g. homeworking arrangements, management and supervision of remote teams, staff wellbeing) • Information governance and data protection (e.g. new ICO data sharing code of practice, records management) • Training and development (officer and / or member) • Ethics and organisational culture • Safeguarding (including domestic violence)
Fundamental / material systems	<ul style="list-style-type: none"> • Revenue budgeting • Capital budgeting • Payroll / personnel • Debtors / income collection (including enforcement practices) • Creditors • General ledger • Council Tax / NNDR & benefits (including review of Covid-19 related grants)
Technical / projects	<ul style="list-style-type: none"> • IT strategy and governance (e.g. transformation plans, information security policies, IT risk management, supporting service development and roles and responsibilities) • IT information security (e.g. server configuration, patch management and operating system configuration) • IT resilience and services (e.g. help desk, incident management and network availability) • Cybersecurity (access control, anti-virus and malware protection, incident management, training, communication and awareness raising) • Overall corporate project management arrangements • Review of specific key council projects

Table 1: initial ideas for audit priorities for 2021/22

Area	Possible Work
Other areas	<ul style="list-style-type: none"> • Risks relating to specific service areas (such as street scene / waste collection and recycling, planning, local plan strategy, leisure services, environmental health, licensing and regulation, economic development and housing) • Homelessness • Climate change (e.g. review of the Climate Change Action Plan, carbon reduction / neutrality, recycling, sustainable transport) • Assurance mapping

7.0 IMPLICATIONS

7.1 The following implications have been identified:

- a) Financial
None
- b) Legal
None
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental and Climate Change, Crime & Disorder)
None

Anton Hodge
Chief Finance Officer (s151)

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The Veritau Group
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Background Papers:
Internal Audit Charter
Public Sector Internal Audit Standards
Corporate Risk Register (October 2020)
Council Plan 2020-2024

APPENDIX 1

Background

There is a statutory duty on the Council to undertake an internal audit of the effectiveness of its risk management, control and governance processes. The Accounts and Audit Regulations 2015 also require the audit takes into account public sector internal auditing standards or guidance.

The Public Sector Internal Audit Standards (PSIAS) and CIPFA's local government application note for the standards represent proper practice for internal audit in local government.

Public Sector Internal Audit Standards (PSIAS) - extracts

1100: Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

Interpretation: Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

Interpretation: To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval.

Cipfa Local Government Application Note: In accordance with current best practice the audit committee should *'review and assess the annual internal audit work plan.'* The development of the risk-based audit plan remains the responsibility of the chief audit executive after consultation with senior management and the board, but the board should approve it.



PART A:	MATTERS DEALT WITH UNDER DELEGATED POWERS
REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	21 JANUARY 2021
REPORT OF THE:	HEAD OF CORPORATE GOVERNANCE SIMON COPLEY
TITLE OF REPORT:	UPDATE ON USE OF REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 This report provides details of the use of covert surveillance under the Regulation of Investigatory Powers Act by Ryedale District Council.

2.0 RECOMMENDATION(S)

- 2.1 That Members note that no application for covert surveillance has been made to the Council's approved "Authorising Officers" in the last twelve months and as a consequence no application to the Magistrates Court requesting approval of any such grant has been made.

3.0 REASON FOR RECOMMENDATION(S)

- 3.1 To ensure oversight by Members of the Council's compliance with the legislation.

4.0 SIGNIFICANT RISKS

- 4.1 There are no significant risk management/assessment implications arising from this proposed decision.

REPORT

5.0 BACKGROUND AND INTRODUCTION

- 5.1 The role of local government is bound by a wide breadth of statutory duties and powers. In an attempt to quantify the full extent of legal duties placed on local government, the

Department of Communities and Local Government undertook a review of local government statutory duties in 2011 and identified 1,294 statutory duties that central government places on local authorities. Local authorities have a wide range of prosecution powers in discharging their regulatory roles.

- 5.2 Currently (in England and Wales) local authorities can bring their own prosecutions based on their own investigations by their own departments – including housing benefit, environmental health, fly tipping, dangerous dogs, food safety, listed building control, planning control and health and safety.
- 5.3 When taking enforcement action, the Council’s enforcing officers may on occasion consider it necessary to undertake covert surveillance work in order to undertake the Council’s statutory duties or “core work”. For example, covert surveillance may be necessary to observe individuals who may be suspected of benefit fraud.
- 5.4 The Regulation of Investigatory Powers Act 2000 (RIPA) was enacted to protect the human rights of individuals who are the subject of covert investigatory techniques, and others who might be affected by collateral intrusion. Contrary to widespread misreporting in the media, it is not anti-terrorism legislation and it did not give local authorities access to covert investigatory techniques for the first time. RIPA merely provides a regulatory framework for the exercise of existing powers which is transparent, addresses human rights issues and has clearly defined authorisation processes.
- 5.5 RIPA controls the use of covert surveillance operations by the Council when undertaking its various enforcement functions.
- 5.6 In essence, RIPA imposes a requirement that an investigating officer cannot use covert surveillance as a method of gathering evidence unless they have first obtained a proper authorisation by an officer of senior rank. RIPA requires that formal “Authorisation” from a senior officer must be obtained before carrying out covert surveillance, monitoring and other evidence-gathering activities.
- 5.7 The investigating officer must make a written application describing the proposed surveillance activity and giving details of the reasons for it, the person or persons who will be the subject of the surveillance, and what evidence the surveillance is intended to obtain. The authorising officer must be satisfied that the proposed surveillance is both **necessary** and **proportionate** in the circumstances and that there is no other reasonable method of achieving the desired outcome.
- 5.8 RIPA requires the Council to have in place procedures to ensure that when required, surveillance is necessary and is properly authorised. Surveillance is usually a last resort that an investigator will use to prove or disprove an allegation. RIPA sets out a statutory mechanism for authorising covert surveillance and the use of covert human intelligence sources.
- 5.9 Any such Authorisation granted must be supported by an Order approving the grant or renewal of such Authorisation from a JP (either a District Judge or lay magistrate) before it can take effect.

6.0 POLICY CONTEXT

- 6.1 Surveillance of illegal activity can take place as part of a number of Council regulatory functions which contribute to improving the district as a place to live.
- 6.2 Whilst the Council is not usually a user of covert surveillance, such methods are used where it is considered necessary and proportionate to do so in order to help achieve the Council's priorities, particularly in relation to the protection of the public and the environment.

7.0 CONSULTATION

- 7.1 Senior Council officers have contributed to the preparation of the report.

8.0 REPORT DETAILS

- 8.1 Systems have been in place since RIPA came into force and include guidance notes on the Council's Intranet, periodic training for officers, and advice and oversight from Legal Services. One of the requirements of the regime is that a central record of authorisations be kept. This is kept and maintained securely by the Solicitor.
- 8.2 The Home Office has issued detailed Codes of Practice on compliance with RIPA's provisions together with standard authorisation forms. RIPA requires that only a "Director, Head of Service or Service Manager or equivalent are lawfully entitled to authorise covert techniques. Currently this is limited to the Programme Director for Economic Development, Business and Partnerships, the Head of Customer Services and Communities and the Head of Communications, Technologies and Business Transformation. Further key guidance notes, distilled from the Home Office codes of practice, are available to the Authorising Officers.
- 8.3 It is emphasised that the use of covert investigatory techniques should, in all cases, be the last resort and the only ground upon which an authorisation may be granted is for the purposes of preventing or detecting a criminal offence, which must be punishable by a maximum term of at least 6 months' imprisonment (with an exception relating to sale of alcohol and tobacco to children). In addition, as previously mentioned, local authority RIPA authorisations must be approved by the Magistrates' Court.
- 8.4 Although RIPA covers a number of activities undertaken by investigatory bodies (e.g., phone tapping by the Security Services and Police) its principle use in respect of Local Authorities relates to:-
- covert surveillance, and
 - covert human intelligence sources.
- 8.5 Covert surveillance covers the monitoring, observing or listening to persons, their movements, conversations or other activities and communications in a way that is calculated to ensure that persons who are subject to surveillance are unaware. It may be conducted with or without the assistance of a surveillance device and includes the recording of any information obtained. RIPA is most relevant to the Council's activities in effecting enforcement procedures such as the investigation and prosecution of offences. This would not include the initial investigation of contraventions such as planning enforcement or noise investigations. The Council's use of the powers has

been very limited in recent years. For example, the Council has not used authorisations under the Act in the last nine years.

8.6 Covert human intelligence sources relate to the use of a third party to gather information. For example, this could be an informer or someone used to undertake test purchases. This is not an activity that the Council engages in at all. The Council also needs the approval of a magistrate to carry out this activity.

8.7 The only area in which the Council very occasionally involves itself where RIPA might be relevant is covert surveillance. It is necessary for the Council therefore to follow the legislation and the requirements of Government Codes of Practice. Most of the requirements of the Code are dealt with at an Officer level. However, Members are expected to approve a Policy on RIPA and to have some involvement in the monitoring of how the Council implements RIPA requirements.

9.0 IMPLICATIONS

9.1 The following implications have been identified:

- a) Financial
None arising from the report.
- b) Legal

Article 8 of the European Convention on Human Rights provides: "Everyone has the right to respect for his private and family life, his home and his correspondence."

There can be no interference by a public authority with the exercise of this right except such as is in accordance with the law and is necessary in a democratic society for the purpose of the prevention of disorder or crime.

The right to non interference with an Article 8 right is not absolute. It is a qualified right. This means that in certain circumstances the Council *may* interfere with the right if the interference is:

- in accordance with the law
- necessary, and
- proportionate

- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental and Climate Change, Crime & Disorder)
None arising from the report.

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Head of Corporate Governance

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Background Papers:

1. [Home Office Guidance - Covert Surveillance and Property Interference \(August 2018\)](#)
2. [Home Office Guidance – Covert Human Intelligent Sources \(August 2018\)](#)
3. [Home Office Guidance - Protection of Freedoms Act 2012- changes to the provisions under the Regulation of Investigatory Powers 2000 \(October 2012 \)](#)
4. [Office of Surveillance Commissioners - Procedures and Guidance \(July 2016\)](#)

Background Papers are available for inspection at: www.ryedale.gov.uk
or Ryedale House, Malton, North Yorkshire, YO17 7HH

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O & S Forward Plan

Date of Meeting	Committee	A/B	Service Area	Report Title	Draft Deadline	Final Deadline	Draft Press Release	Implement Date	Full Council	Reporting Officer	Annual Y/N
21-Jan-21	Overview and Scrutiny Committee	Au	Corporate Governance	External Audit Annual Fee Letter 2020/21	30-Dec-20	12-Jan-21				AH	Y
21-Jan-21	Overview and Scrutiny Committee	Au	Corporate Governance	Second Internal Audit and Counter Fraud Progress Reports 2020/21	30-Dec-20	12-Jan-21				AH	Y
21-Jan-21	Overview and Scrutiny Committee	Au	Corporate Governance	Internal Audit Plan 2021/22 - Consultation	30-Dec-20	12-Jan-21				AH	Y
21-Jan-21	Overview and Scrutiny Committee	Au	Corporate Governance	External Audit Plan	30-Dec-20	12-Jan-21				AH	Y
21-Jan-21	Overview and Scrutiny Committee	Au	Corporate Governance	Update on the use of RIPA	30-Dec-20	12-Jan-21				SC	Y
21-Jan-21	Overview and Scrutiny Committee	B	Financial Services	Treasury Management Statement and Investment Strategy 2021-22	30-Dec-20	12-Jan-21	12-Jan-21		18-Feb-21	AH	Y
15-Feb-21	Overview and Scrutiny Committee	OS	Corporate Governance	Standards Complaints Overview and Annual Report	20-Jan-21	02-Feb-21				AH	Y
11-Feb-21	Overview and Scrutiny Committee	OS	Customer Services	Customer Complaints and Compliments Q3 2020/21	20-Jan-21	02-Feb-21				MW	Y
11-Feb-21	Overview and Scrutiny Committee	OS	Communications, Technologies and Business Transformation	Performance Report Q3	20-Jan-21	02-Feb-21				LW	Y
March											
25-Mar-21	Overview and Scrutiny Committee	OS	Customer Services	Safer Ryedale and Community Safety Plan	03-Mar-21	16-Mar-21				MW	Y
April											

Date of Meeting	Committee	A/B	Service Area	Report Title	Draft Deadline	Final Deadline	Draft Press Release	Implement Date	Full Council	Reporting Officer	Annual Y/N
22-Apr-21	Overview and Scrutiny Committee	Au	Corporate Governance	External Audit Progress Report	31-Mar-21	13-Apr-21				AH	Y
22-Apr-21	Overview and Scrutiny Committee	Au	Corporate Governance	Third Internal Audit and Counter Fraud Progress report	31-Mar-21	13-Apr-21				AH	Y
22-Apr-21	Overview and Scrutiny Committee	Au	Corporate Governance	Internal Audit and Counter Fraud Governance Plans 2021/22	31-Mar-21	13-Apr-21				AH	Y



PART B:	RECOMMENDATIONS TO COUNCIL
REPORT TO:	POLICY AND RESOURCES COMMITTEE
DATE:	4 FEBRUARY 2021
REPORT OF THE:	CHIEF FINANCE OFFICER (s151) ANTON HODGE
TITLE OF REPORT:	TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2021/22
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

1.1 To consider the Treasury Management, Annual Investment and Capital Strategies, the Minimum Revenue Provision Policy and Prudential Indicators for 2021/22, as required by the Ministry of Housing, Communities and Local Government and CIPFA (as updated 2017)..

2.0 RECOMMENDATIONS

- 2.1 That Council is recommended to approve:
- (i) Members receive this report;
 - (ii) The Operational Borrowing Limit for 2021/22 is set at £7m;
 - (iii) The Authorised Borrowing Limit for 2021/22 is set at £12.5m;
 - (iv) Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed authorised boundary limits for long-term borrowing for 2021/22 onwards.
 - (v) Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed operational boundary limits for long-term borrowing for 2021/22 onwards.
 - (vi) The treasury management strategy statement 2021/22 be approved.
 - (vii) The minimum revenue provision policy statement for 2021/22 be approved.
 - (viii) The treasury management investment strategy for 2021/22 be approved.

- (ix) The prudential indicators for 2021/22 which reflect the capital expenditure plans which are affordable, prudent and sustainable be approved.
- (x) The Capital Strategy for 2021/22 be approved

3.0 REASON FOR RECOMMENDATIONS

- 3.1 To ensure the Council's Treasury Management Strategy and association policies are prudent and affordable.

4.0 SIGNIFICANT RISKS

- 4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment policy, these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

- 5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code and the relevant requirements of the Local Government Act 2003.
- 5.2 The Council use the services of Link Asset Services to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

6.1 TREASURY MANAGEMENT STRATEGY STATEMENT 2021/22

- 6.1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 6.1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 6.1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget.

Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

6.1.4 CIPFA defines treasury management as:

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

Reporting Requirements

6.1.5 Revised reporting was required from the 2020/21 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011.

6.1.6 **Capital Strategy**

The CIPFA revised 2017 Prudential and Treasury Management Codes requires all local authorities to prepare a capital strategy report, which will provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

6.1.7 **Treasury Management Reporting**

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by committee before being recommended to the Council. This role is undertaken by the Overview and Scrutiny Committee.

Prudential and Treasury Indicators and Treasury Strategy (this report) – The first and most important report covers:

- The capital plans (including prudential indicators);
- A Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An investment strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report. This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy or whether any policies require revision.

An Annual Treasury Report. This provides details of a selection of actual prudential treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management Strategy for 2021/22

6.1.8 The strategy for 2021/22 covers two main areas

Capital Issues

- The capital plans and prudential indicators
- The MRP strategy

Treasury Management Issues

- The current treasury position;
- Treasury indicators which will limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- The investment strategy; and
- Creditworthiness policy.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

6.1.9 **Training**

The CIPFA Code requires the Chief Finance Officer to ensure that members with responsibility for treasury management, particularly those with responsibility for scrutiny, receive adequate training in treasury management. Training has been provided to members by Link Asset Services and further training will be arranged as required.

6.1.10 **Treasury Management Consultants**

The Council uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

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 the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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.

6.1.11 Treasury Management Function & Sweeping Arrangements

Included within the service level agreement which is currently being finalised with North Yorkshire County Council (NYCC) for the provision on s151 Officer and Finance services, there is provision for treasury management support.

Reporting and monitoring processes are already in place, along with day to day support for treasury activities. It has previously been reported that discussions were underway between the Authorities' respective banks exploring the technical feasibility for Ryedale District Council to join NYCC's investment pool, and that prior to implementing such arrangements Ryedale District Council would be asked to formally adopt the Investment Strategy of NYCC.

Following on-going discussions, a solution for automated balances sweeping between banks has not been identified at present, although opportunities will continue to be investigated. It is therefore not proposed within the 2021/22 Investment strategy to adopt that of NYCC.

6.2 THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2023/24

Introduction

- 6.2.1 The 'Prudential Code' provides Council's with a regime of self-regulation for borrowing money for capital purposes. A local authority can borrow as much as it wishes as long as it can afford the repayments. The Code outlines four key objectives relating to the capital investment plans and treasury management procedures of local authorities. To demonstrate that these objectives are being fulfilled the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account.
- 6.2.2 The Code prescribes how the issue of affordability is measured using a set of prudential indicators. The four key objectives of the Code are to ensure that capital investment plans of local authorities are affordable, prudent and sustainable, and to ensure that treasury management decisions are taken in accordance with good professional practice. The indicators are mandatory but the figures used in the calculations are a matter for each local authority.
- 6.2.3 The prudential indicators required by the Code are designed to support and record local decision-making. They are not designed to be comparative performance indicators and the use of them in this way would be likely to be misleading and counter-productive.
- 6.2.4 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure.

- 6.2.5 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. These are currently based draft estimates and final budget proposals will be updated prior to Council approval.

Table 1: Capital Expenditure

Capital Expenditure	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
General Fund	1,163	3,533	4,014	4,126	651
Commercial Activities / Non Financial Investments	0	0	0	0	0
Total	1,163	3,533	4,014	4,126	651

The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

Table 2: Financing of Capital Expenditure

- 6.2.6 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing):

Capital Expenditure	2019/20 Est. £'000	2020/21 Est. £'000	2021/22 Est. £'000	2022/23 Est. £'000	2023/24 Est. £'000
General Fund	1,163	3,533	4,014	4,126	651
Total	1,163	3,533	4,014	4,126	651
Financed By:					
Revenue & Reserves	-552	-2,512	-2,190	-3,630	-155
Capital Receipts	-21	-125	-125	0	0
Grants	-590	-496	-496	-496	-496
Borrowing - Leases	0	-400	-1,203	0	0
Net Financing Need	0	400	1,203	0	0

The Council's Borrowing Need (the Capital Financing Requirement)

- 6.2.7 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.
- 6.2.8 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life. The Council is asked to approve the CFR projections below:

Table 3: Capital Financing Requirement

	2019/20	2020/21	2021/22	2022/23	2023/24
	Est.	Est.	Est.	Est.	Est.
	£000	£000	£000	£000	£000
CFR General Fund	1,589	1,553	1,518	1,483	1,447
CFR GF Leases	113	425	1,401	1,169	899
CFR Commercial / Non-financial investments	0	0	0	0	0
Total CFR	1,702	1,979	2,919	2,652	2,346
Movement in CFR	-162	277	940	-267	-305
Movement in CFR represented by:-					
Net Financing need for the year	0	400	1,203	0	0
Less MRP & Other Financing movements	-162	-123	-263	-267	-305
Movement in CFR	-162	277	940	-267	-305

6.2.9 The CFR includes any other long term liabilities (e.g. finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. These are also shown in Table 3.

Affordability Prudential Indicators

6.2.10 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicator:

6.2.11 The indicator of actual and estimates of the ratio of financing costs to net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. These are shown in Table 4. The estimates of financing costs include current commitments and the proposals in this report.

Table 4: Ratio of Financing Costs to Net Revenue Stream

	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Est.	Est.	Est.	Est.
	%	%	%	%	%
General Fund	-0.42	0.45	3.40	4.22	4.69

6.3 MINIMUM REVENUE PROVISION POLICY STATEMENT 2021/22

Introduction

- 6.3.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision – MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision – VRP).

MHCLG Regulations have been issued which require the full Council to approve an MRP Policy Statement in advance of each year. A variety of options are provided to councils so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement.

Minimum Revenue Provision Policy

- 6.3.2 The Council's MRP policy is based on the Governments Statutory Guidance and following a review no further changes are considered necessary and the policy for 2021/22 is therefore as follows:

- (a) For all **Capital expenditure incurred before 1 April 2008** which formed the General Fund Capital Financing Requirement (CFR) that is capital expenditure funded through borrowing will be charged at 4% of the outstanding balance each year.
- (b) From 1 April 2018 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be either:
- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3);
 - **Depreciation method** – MRP will follow standard depreciation accounting procedures (option 4);

These options provide for a reduction in the borrowing need over approximately the asset's life

Total MRP for 2021/22 is estimated at £0.262m, (£0.035m internal borrowing, and £0.227m for leases).

- 6.3.3 MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments (VRP), can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. At present there are no plans to make voluntary revenue provisions (VRP).

6.4 BORROWING STRATEGY 2021/22

- 6.4.1 The capital expenditure plans provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet the service activity. This will involve both the organisation of the cash flow and,

where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

6.4.2 The Council's treasury portfolio position at 31 December 2020, is shown in Table 1.

Table 1: Current Treasury Portfolio at 31/12/20

		Principal		Ave. Rate
		£m	£m	%
Fixed rate funding	PWLB	1.5		
	Market	0.0		
Variable rate funding	PWLB	0.0		
	Market	0.0	0.0	0
Other long term liabilities	Leases	0.1		
Total Debt			1.6	4.19
Total Investments			31.0	0.49

6.4.3 Forward projections are summarised in Table 2. The table shows the actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 2: Forecasted Portfolio Position

	2020/21	2021/22	2022/23	2023/24
	F'cast	F'cast	F'cast	F'cast
	£000	£000	£000	£000
External Borrowing				
Borrowing at 1 April	1,434	1,395	1,355	1,316
Expected Change in Borrowing	-39	-39	-39	-39
Leases	425	1,401	1,169	899
Actual Borrowing at 31 March	1,820	2,756	2,485	2,175
CFR - the borrowing need	1,979	2,919	2,652	2,346
Under / (over) borrowing	159	163	167	171
Investments				
Total Investments	17,778	13,532	12,393	12,519
Investment Change	-3,819	-4,246	-1,139	126
Net Borrowing	-15,958	-10,776	-9,909	-10,344

Treasury Limits for 2021/22 to 2023/24

6.4.5 Ryedale District Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending

6.4.6 CIPFA’s Prudential code for Capital Finance in Local Authorities’ includes the following key indicator of prudence;

“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and the next two financial years.”

6.4.7 The Chief Finance Officer reports that the authority had no difficulty meeting this requirement in 2019/20, nor are any difficulties envisaged for the current (2020/21) or future years (2022/23 – 2023/24). This view takes into account current commitments, existing plans and the proposals in the budget.

6.4.8 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax levels is ‘acceptable’. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

6.4.9 Whilst termed an “Affordable Borrowing Limit”, it incorporates the capital plans to be considered for inclusion in corporate financing by both external borrowing and other forms of liability, such as credit arrangements.

6.4.10 The Authorised Limit for external borrowing is a key prudential indicator and represents a control on the maximum level of borrowing. It is a limit beyond which external borrowing is prohibited, and this limit needs to be set or revised by the full Council on a rolling basis, for the forthcoming financial year and two successive financial years. This information is shown in table 3.

Table 3: Authorised Borrowing Limit

Authorised Limit	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Debt	10,000	10,000	10,000	10,000
Other long term liabilities	1,000	2,500	2,500	2,500
Total	11,000	12,500	12,500	12,500

6.4.11 The Operational Boundary is the limit beyond which external borrowing is not normally expected to exceed and within which officers will manage the Council’s external debt position. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing. This information is shown in table 4.

Table 4: Operational Borrowing Limit

Operational Boundary	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	600	2,000	2,000	2,000
Total	5,600	7,000	7,000	7,000

6.4.12 In respect of its external debt, table 3 details the proposed authorised limits for the Council’s total external debt gross of investments for the next three financial years which councillors are recommended to approve. These limits separately identify borrowing from other long-term liabilities such as finance leases. It is also recommended that members continue to delegate authority to the Chief Finance Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities. Any such changes made will be reported to Overview & Scrutiny Committee at its next meeting following the change.

6.4.13 The Chief Finance Officer reports that these authorised limits are consistent with the authority’s current commitments, existing plans and the proposals in the budget for capital expenditure and financing, and with its approved treasury management policy statement and practices. The Chief Finance Officer confirms that they are based on the estimate of the most likely, prudent but not worst-case scenario, with sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cash flow requirements for all purposes.

Prospects for Interest Rates

6.4.13 The Council has appointed Link Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex 1 draws together a number of current city forecasts for short term (bank rate) and longer fixed interest rates. Table 5 gives the Link central view.

Table 5: Link View interest rate forecast – January 2021

Link Group Interest Rate View 9.11.20														
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20														
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.80	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00	1.00	1.00
10 yr PWLB	1.10	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.30	1.30
25 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80	1.80	1.80
50 yr PWLB	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60	1.60	1.60

Borrowing Requirement

6.4.14 The Council is currently forecasting a marginally under-borrowed position in 2020/21. This means that the Council’s capital borrowing is lower than the underlying need to borrow. As a result of the capital expenditure plans set out in 6.2.2, Table 1 the Council is expected to be maintain an under-borrowed position from 2021/22 onwards as shown in Table 6 below. This is a prudent strategy as investment returns are low and counterparty risk is relatively high – this approach will be carefully monitored during 2021/22.

Table 5: Borrowing Position

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Under / (Over) Borrowing				
External Debt				
GF Ext Borrowing	1,395	1,355	1,316	1,276
Capital Financing Requirement	1,553	1,518	1,483	1,447
Under / (Over) Borrowing	159	163	167	171

* The table above excludes leases from the under / over borrowed position, unlike table 2 – Forecasted Portfolio Position.

6.4.15 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

6.4.16 The current capital programme funding forecasts for 2021/22 to 2023/24 shows there is currently no borrowing requirement. However, borrowing needs will be reviewed as the capital programmes are confirmed. Any decisions will be reported to Overview & Scrutiny committee at the next available opportunity.

Treasury Management Limits on Activity

6.4.17 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

%	2020/21 £'000	2021/22 £'000	2022/23 £'000
Interest Rates Exposure	Upper	Upper	Upper
Borrowing:			
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	5%	5%	5%
Investments:			
Limits on fixed interest rates	100%	100%	100%
Limits on variable interest rates	50%	50%	50%
Maturity Structure New Borrowing 2020/21		Lower	Upper
Under 12 months		0%	20%
12 Months and within 2 Years		0%	20%
2 Years and within 5 Years		0%	50%

5 Years and within 10 Years	0%	50%
10 Years and within 15 Years	0%	50%
15 Years and over	90%	20%

Policy on Borrowing in Advance of Need

6.4.18 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

6.5 ANNUAL INVESTMENT STRATEGY STATEMENT 2021/22

Investment Policy – management of risk

6.5.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy

6.5.2 NYCC Pooling Arrangements

6.5.2 The Council’s investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments (“the Guidance”);
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 (“the Code”); and
- CIPFA Treasury Management Guidance Notes 2018.

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return).

6.5.3 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- a) minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings;
- b) other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings;

- c) other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties;
- d) the Council has defined the list of types of investment instruments that the treasury management team are authorised to use:-
 - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.
 - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.
- e) **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio, (£4m);
- f) **Lending limits**, (amounts and maturity), for each counterparty will be set;
- g) the Council will set a limit for the amount of its investments which are invested for **longer than 365 days**;
- h) investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**;
- i) the Council has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year;
- j) all investments will be denominated in **sterling**; and
- k) as a result of the change in accounting standards for 2020/21 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23)

6.5.4 However, the Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year

6.5.5 The above criteria are unchanged from last year.

Credit Worthiness Policy – Security of Capital and use of credit ratings

6.5.6 This Council applies the creditworthiness service provided by Link Asset Services (Sector). This service employs a sophisticated modelling approach utilising credit ratings from all three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

(a) This modelling approach combines credit ratings, credit watches, and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands, which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Council to determine the duration for investments. The Council will therefore use the counterparties within the following durational bands:

Colour	Maximum Investment Duration
Yellow	5 Years
Purple	2 Years
Orange	1 Year
Blue	1 Year (UK nationalised / semi nationalised banks only)
Red	6 Months
Green	100 Days
No Colour	No investments to be made

6.5.7 The Link Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

6.5.8 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of Short Term rating F1, Long Term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these, instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

6.5.9 All credit ratings will be monitored daily. The Council is alerted to changes to ratings of all three agencies through its use of the Link Asset Services creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be with drawn immediately;
- In addition to the use of credit ratings the Council will be advised of information in

movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the lending list.

- 6.5.10 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

UK Banks – Ring-fencing

- 6.5.11 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

- 6.5.12 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

- 6.5.13 While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The County Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

Country Limits

- 6.5.14 Due care will be taken to consider the exposure of the Council’s total investment portfolio to non-specified investments, countries, groups and sectors

a) **Non-specified investment limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch. The list of countries that qualify using these credit criteria as at the date of this report are shown in Annex C. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Investment Strategy

- 6.5.15 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage daily cash flow requirements, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully

assessed:-

- if it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable;
- conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

6.5.16 Bank Rate is unlikely to rise from 0.10% for a considerable period. It is very difficult to say when it may start rising so it may be best to assume that investment earnings from money market-related instruments will be sub 0.50% for the foreseeable future. Bank Rate forecasts for financial year ends are:

- Q1 2022 0.25%
- Q1 2023 0.25%
- Q1 2024 0.40%

6.5.17 For its cash flow generated balances, the Council will seek to utilise its notice accounts, money market funds and short dated deposits (overnight to three months) in order to benefit from the compounding of interest.

Ethical Investment Opportunities

6.5.18 Investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principals – security, liquidity and yield: ethical issues must play a subordinate role to those principals. Link Asset Services is looking at ways in which Environmental, Social and Governance (ESG) metrics may be incorporated into credit rating agency assessments, and a small but growing number of financial institutions and fund managers are starting to promote ESG products. However, with a lack of consistency and coverage, Link Asset services continue to review options in this area and will update clients as progress is made, which will be brought forward in future Treasury reporting updates when available.

6.5.19 Within the Council's current lending criteria, an ethical money market fund is available to the Council for investment, (details are attached at Annex H) and will continue to be considered, should favourable return rates become available.

End of Year Investment Report

6.5.20 At the end of the financial year the Council will report on its investment activity as part of the Annual Treasury Report.

Scheme of Delegation

6.5.21 Please see Annex E.

Role of the section 151 officer

6.5.22 Please see Annex E.

6.6 CAPITAL STRATEGY

The Prudential Code 2017 introduced a new requirement for local authorities to produce and annual capital strategy. Please refer to Annexes F and G.

7.0 IMPLICATIONS

7.1 The following implications have been identified:

- a) Financial
The results of the investment strategy affect the funding of the Capital Programme.
- b) Legal
There are no legal implications regarding this report.
- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder, Climate Change)
There are no legal implications regarding this report.

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Chief Finance Officer (s151)

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Background Papers:
None

Background Papers are available for inspection at: None

TREASURY MANAGEMENT STATEMENT AND INVESTMENT STRATEGY REPORT- RISK MATRIX – ANNEX A

Issue/Risk	Consequences if allowed to happen	Likelihood	Impact	Mitigation	Mitigated Likelihood	Mitigated Impact
Credit risk - associated with investing with financial institutions that do not meet the credit rating criteria.	Could mean loss of principal sum and interest accrued.	2	D	Although the economic climate is improving, counterparty risk is still a big issue. As a result the Council have adopted a stringent credit rating methodology.	1	D
Market risk - Selection of wrong type of investment for higher return.	The poor performance of the chosen investment.	2	B	The number of investment options is kept to a minimum. Investments are normally restricted to short term fixed rate deposits or instant access accounts.	2	B
Liquidity risk - Use of fixed term deposits and / or instruments / investments with low marketability may mean a lack of liquidity	Unable to take advantage of better investment options. Funds are unavailable to cover capital spend.	1	B	This Strategy specifies the type of instrument the authority is prepared to invest in and maximum term for those investments	1	B

Score	Likelihood	Score	Impact
1	Very Low	A	Low
2	Not Likely	B	Minor
3	Likely	C	Medium
4	Very Likely	D	Major
5	Almost Certain	E	Disaster

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SPECIFIED AND NON-SPECIFIED INVESTMENTS

SPECIFIED INVESTMENTS:

Investment	Security / Minimum Credit Rating	Circumstances of Use
Term Deposits with the UK Government or with UK Local Authorities (as per Local Government Act 2003) with maturities up to 1 year	High security as backed by UK Government	In-house
Term Deposits with credit rated deposit takers (Banks and Building Societies), including callable deposits with maturities less than 1 year	Organisations assessed as having "high credit quality" within the UK or from Countries with a minimum Sovereign rating of AA- for the country in which the organisation is domiciled	In-house
Certificate of Deposits issued by credit rated deposit takers (Banks and Building Societies) up to 1 year		Fund Manager or In-house "buy and hold" after consultation with Treasury Management Advisor
Forward deals with credit rated Banks and Building Societies less than 1 year (i.e. negotiated deal plus period of deposit)		In-house
Money Market Funds i.e. collective investment scheme as defined in SI2004 No 534 (<i>These funds have no maturity date</i>)	Funds must be AAA rated	In-house Limited to £3m
Gilts (with maturities of up to 1 year)	Government Backed	Fund Manager or In-house buy and hold after consultation with Treasury Management Advisor
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI 2004 No 534) with maturities under 12 months (<i>Custodial arrangements required prior to purchase</i>)	Government Backed	After consultation with Treasury Management Advisor

NON-SPECIFIED INVESTMENTS

Investment	Security / Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
Term Deposit with credit rated deposit takers (Banks & Building Societies), UK Government and other Local Authorities with maturities greater than 1 year	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	100% of agreed maximum proportion of Core Cash funds (£4m)	£1m	5 years
Certificate of Deposit with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year Custodial arrangements prior to purchase	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	100% of agreed maximum proportion of Core Cash funds (£4m)	£1m	5 years
Callable Deposits with credit rated deposit takers (Banks & Building Societies) with maturities greater than 1 year	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	50% of agreed maximum proportion of Core Cash funds (£2m)	£1m	5 years
Term Deposits with Housing Associations with maturities greater than 1 year	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	25% of agreed maximum proportion of Core Cash funds (£1m)	£1m	5 years
Forward Deposits with a credit rated Bank or Building Society > 1 year (i.e. negotiated deal period plus period of deposit)	Organisations assessed as having "high credit quality" under the Credit Worthiness Policy	In-house	25% of agreed maximum proportion of	£1m	5 years

Investment	Security / Minimum Credit Rating	Circumstances of Use	Max % of total investments	Maximum investment with any one counterparty	Max. maturity period
			Core Cash funds (£1m)		
Bonds issued by a financial institution that is guaranteed by the UK Government (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	AA or Government backed	Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed maximum proportion of Core Cash funds (£1m)	n/a	5 years
Bonds issued by Multilateral development banks (as defined in SI2004 No534) with maturities in excess of 1 year Custodial arrangements required prior to purchase	AA or Government backed	Fund Manager or In-house "buy & hold" after consultation with Treasury Management Advisor	25% of agreed maximum proportion of Core Cash funds (£1m)	£1m	5 years
UK Government Gilts with maturities in excess of 1 year Custodial arrangements required prior to purchase	Government backed	Fund Manager	25% of agreed maximum proportion of Core Cash funds (£1m)	n/a	5 years
Collateralised Deposit	UK Sovereign Rating	In-house	25% of agreed maximum proportion of Core Cash funds (£1m)	n/a	5 years

This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets

Sovereign Rating	Country
AAA	Australia Canada Denmark Germany Luxemburg Netherlands Norway Singapore Sweden Switzerland
AA+	Finland USA
AA	Abu Dhabi (UAE) France Hong Kong UK
AA-	Belgium Qatar

APPROVED LENDING LIST 2021/22

Maximum sum invested at any time (The overall total exposure figure covers both Specified and Non-Specified investments)

	Country	Specified Investments (up to 1 year)		Non-Specified Investments (> 1 year £4m limit)	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	4.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	3.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	4.0	6 months	-	-
Barclays Bank UK PLC (RFB)	GBR				
Bank of Scotland PLC (RFB)	GBR	3.0	365 days	-	-
Lloyds Bank PLC (RFB)	GBR		6 months		
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
HSBC Bank PLC (NRFB)	GBR	1.5	365 days	-	-
HSBC UK Bank PLC (RFB)	GBR				
Goldman Sachs International Bank	GBR	3.0	6 months		
Sumitomo Mitsui	GBR	1.5	6 months		
Standard Chartered Bank	GBR	3.0	6 months		
Handelsbanken	GBR	2.0	365 days		
Nationwide Building Society	GBR	2.0	6 months	-	-
Leeds Building Society	GBR	1.0	3 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	1.5	365 days	-	-
Commonwealth Bank of Australia	AUS	1.5	365 days		
Toronto-Dominion Bank	CAN	1.5	365 days		
Credit Industriel et Commercial	FRA	1.5	6 months	-	-
Landesbank Hessen-Thuringen Girozentrale (Helaba)	GER	1.5	365 days		
DBS (Singapore)	SING	1.5	365 days		
Local Authorities					
County / Unitary / Metropolitan / District Councils		1.0	365 days	1.0	5 years
Police / Fire Authorities		1.0	365 days	1.0	5 years
National Park Authorities		1.0	365 days	1.0	5 years
Other Deposit Takers					
Money Market Funds		1.0	365 days	1.0	5 years
UK Debt Management Account		5.0	365 days	1.0	5 years

TREASURY MANAGEMENT SCHEME OF DELEGATION

1. Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

2. Policy and Resources Committee

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- approving the selection of external service providers and agreeing terms of appointment.

3. Overview and Scrutiny Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

Background

1. The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) plays a key role in capital finance in local authorities. Local authorities determine their own programmes for investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.
2. In financing capital expenditure, local authorities are governed by legislative frameworks, including the requirement to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.
3. In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability, the Prudential Code requires authorities to have in place a Capital Strategy that sets out the long term context in which capital expenditure and investment decisions are made, and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.
4. The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy. The Capital Strategy provides an overview of the governance process for approval and monitoring of capital expenditure. In addition, the Capital Strategy and Prudential Indicators also demonstrates that the capital expenditure, investment and financing plans of the Authority are robust, affordable and sustainable.”

The S151 (responsible) officer

The following are specific responsibilities of the Section 151 Officer:

- recommending clauses, treasury management policies and practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports to Members;
- submitting budgets and budget variations to Members;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;

- ensuring the adequacy of internal audit, and liaising with external audit;
 - recommending the appointment of external service providers:
 - preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management;
 - ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
 - ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
 - ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
 - ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
 - ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
 - provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
 - ensuring that members are adequately informed and understand the risk exposures taken on by an authority
 - ensuring that the authority has adequate expertise, either in house or externally provided
 - creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed
5. “The Capital Strategy provides an overview of the governance process for approval and monitoring of capital expenditure. In addition, the Capital Strategy and Prudential Indicators also demonstrate that the capital expenditure, investment and financing plans of the Authority are robust, affordable and sustainable.”

CAPITAL STRATEGY 2021/22**1.0 BACKGROUND**

1.1 The purpose of the Capital Strategy is to demonstrate that the Council takes capital expenditure and investment decisions in line with Corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

1.2 The Capital Strategy comprises a number of distinct, but inter-related, elements as follows:

(a) Capital expenditure (Section 2)

This section includes an overview of the governance process for approval and monitoring of capital expenditure, including the Council's policies on capitalisation, and an overview of its capital expenditure and financing plans.

(b) Capital financing and borrowing (Section 3)

This section provides a projection of the Council's capital financing requirement, how this will be funded and repaid. It therefore sets out the Council's borrowing strategy and explains how it will discharge its duty to make prudent revenue provision for the repayment of debt.

(d) Alternative investments (Section 4)

This section provides an overview of those of the Council's current and proposed alternative investment activities that count as capital expenditure, including processes, due diligence and defining the Council's risk appetite in respect of these, including proportionality in respect of overall resources.

(e) Chief Financial Officer's statement (Section 5)

This section contains the Chief Financial Officer's views on the deliverability, affordability and risk associated with the capital strategy

2.0 CAPITAL EXPENDITURE

Capitalisation Policy

2.1 Expenditure is classified as capital expenditure when it results in the acquisition or construction of an asset (e.g. land, buildings, roads and bridges, vehicles, plant and equipment etc.) that:

- Will be held for use in the delivery of services, for rental to others, investment or for administrative purposes; and
- Are of continuing benefit to the Council for a period extending beyond one financial year.

Subsequent expenditure on existing assets is also classified as capital expenditure if these two criteria are met.

2.2 There may be instances where expenditure does not meet this definition but would be treated as capital expenditure, including:

- Where the Council has no direct future control or benefit from the resulting assets, but would treat the expenditure as capital if it did control or benefit from the resulting assets; and
- Where statutory regulations require the Council to capitalise expenditure that would not otherwise have expenditure implications according to accounting rules

2.3 The Council operates de-minimis limits for capital expenditure. This means that items below these limits are charged to revenue rather than capital. The limits are currently as follows:

- **General Limit:** £10,000

Governance

2.4 Policy & Resources Committee shall, during each financial year and after consultation with the relevant Overview and Scrutiny Committee(s), approve a capital expenditure programme for the next following and subsequent 2 financial years. Such programmes shall be in a form and in accordance with deadlines approved by the Chief Finance Officer and in accordance with the Council's Financial Strategy. Capital expenditure plans shall be prepared in conjunction with the Chief Finance Officer for submission to The Policy & Resources Committee and then Council for approval.

2.5 The Council's Financial and Contract Procedure Rules provide a framework for the appropriate authorisations for individual schemes to proceed and facilitate the overall management of the Capital Plan within defined resource parameters.

Capital Expenditure and Funding Plans

2.6 Capital expenditure plans are set out within the Treasury Management Strategy (6.2.2).

2.7 When expenditure is classified as capital expenditure for capital financing purposes, this means that the Council is able to finance that expenditure from any of the following sources:

- (a) **Capital grants and contributions** - amounts awarded to the Council in return for past or future compliance with certain stipulations.
- (b) **Capital receipts** – amounts generated from the sale of assets and from the repayment of capital loans, grants or other financial assistance.
- (c) **Revenue contributions** – amounts set aside from the revenue budget in the Reserve for Future Capital Funding.
- (d) **Borrowing** - amounts that the Council does not need to fund immediately from cash resources, but instead charges to the revenue budget over a number of years into the future.

2.8 The implications of financing capital expenditure from 'borrowing' are explained in section 3 below.

3.0 CAPITAL FINANCING REQUIREMENT AND BORROWING

Context

- 3.1 The Council is required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the affordability, prudence and sustainability of its capital investment plans.
- 3.2 Fundamental to the prudential framework is a requirement to set a series of prudential indicators. These indicators are intended to collectively build a picture that demonstrates the impact over time of the Council's capital expenditure plans upon the revenue budget and upon borrowing and investment levels, and explain the overall controls that will ensure that the activity remains affordable, prudent and sustainable.
- 3.3 A summary of the actual prudential indicators for 2020/21, and the estimates for 2021/23 through to 2023/24 are provided in the Treasury Management Strategy document..

Capital Financing Requirement

- 3.4 When capital expenditure is funded from borrowing, this does not result in expenditure being funded immediately from cash resources, but is instead charged to the revenue budget over a number of years. It does this in accordance with its policy for the repayment of debt, which is set out in the Minimum Revenue Policy Statement, within the Treasury Strategy (6.3).
- 3.5 The forward projections of the CFR reflect:
 - Capital Expenditure plans that are expected to be funded from finance leases, which includes Streetscene vehicle replacements and Ryecare system renewal
 - Revenue budget provision being made for the repayment of debt, which results in a reduction to the CFR).
- 3.6 The actual CFR for 2020/21 and forward projections for the current and forthcoming years are as follows:

	2019/20	2020/21	2021/22	2022/23	2023/24
	Act.	Est.	Est.	Est.	Est.
	£000	£000	£000	£000	£000
CFR General Fund	1,589	1,553	1,518	1,483	1,447
CFR GF Leases	113	425	1,401	1,169	899
CFR Commercial / Non-financial investments	0	0	0	0	0
Total CFR	1,702	1,979	2,919	2,652	2,346
Movement in CFR	-162	277	940	-267	-305
Movement in CFR represented by:-					
Net Financing need for the year	0	400	1,203	0	0
Less MRP & Other Financing movements	-162	-123	-263	-267	-305
Movement in CFR	-162	277	940	-267	-305

3.7 The forecast decrease in the CFR shows that there are borrowing requirements to fund capital expenditure to be financed through Finance Leases, and therefore the increase in 20/21 and 21/22 reflects the timing on the capital spend, then gradual reduction from 22/23 reflects the annual minimum revenue provisions towards the repayment of debt.

External borrowing limits

3.9 The Council is only permitted to borrow externally (including via credit arrangements) up to the level implied by its Capital Financing Requirement (CFR). To ensure that external borrowing does not exceed the CFR, other than in the short term, limits are established for external debt, as follows:

- **Authorised limit** – this defines the maximum amount of external debt permitted by the Council, and represents the statutory limit determined under section 3 (1) of the Local Government Act 2003.
- **Operational boundary** – this is an estimate of the probable level of the Council's external debt, and provides the means by which external debt is managed to ensure that the 'authorised limit' is not breached.

3.10 The proposed limits, which are set out in the Treasury Strategy, make separate provision for external borrowing and other long-term liabilities, and are based upon an estimate of the most likely but not worst case scenarios. They allow sufficient headroom for fluctuations in the level of cash balances and in the level of the CFR.

3.11 Alternative investment activities included in the plan are to be classed as capital expenditure. An Alternative Investments Strategy has not yet been developed and, in the event that major initiatives are proposed, it may be necessary to review the current borrowing limits.

3.12 The agreed **Operational Boundary** and **Authorised Limits** for external debt are as follows:

Authorised Limit	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Debt	10,000	10,000	10,000	10,000
Other long term liabilities	1,000	2,500	2,500	2,500
Total	11,000	12,500	12,500	12,500

Operational Boundary	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	600	2,000	2,000	2,000
Total	5,600	7,000	7,000	7,000

Borrowing strategy

3.13 The Councils Borrowing Strategy is set out in the Treasury Strategy document (6.4).

3.14 The Council's capital borrowing is slightly lower than the underlying need to borrow, and the Council is expected to be in an under-borrowed position from 2020/21 onwards. This has been a prudent strategy as investment returns are low and counterparty risk is relatively high – this approach will be carefully monitored during 2021/22

3.15 The use of internal borrowing has been an effective strategy in recent years as:

- Rising cash balances as a result of MRP set aside mean available cash for the medium to longer term;
- It has enabled the Council to avoid significant external borrowing costs; and
- It has mitigated significantly the risks associated with investing cash in what has often been a volatile and challenging market.

3.16 Further long term external borrowing may be undertaken, in excess of the current forecasts, in the event that it is not possible or desirable to sustain the anticipated internal borrowing position.

3.17 The external borrowing requirement will be kept under review and long term external loans will be secured within the parameters established by the **authorised limit** and **operational boundary** for external debt, as set out above.

3.18 Opportunities to generate savings by refinancing or prematurely repaying existing long term debt will also be kept under review. Potential savings will be considered in the light of the current treasury position and the costs associated with such actions.

Minimum Revenue Provision

3.19 The Council sets cash resources aside from the Revenue Budget each year to repay the borrowing. This practice is referred to as the minimum revenue provision (MRP) for the repayment of debt.

- 3.20 The Capital Financing Requirement (CFR) provides a measure of the amount of capital expenditure which has been financed from borrowing that the Council yet to fund from cash resources.
- 3.21 Statutory guidance requires MRP to be provided annually on a prudent basis. In accordance with the requirement to make a prudent 'revenue provision for the repayment of debt', the Council ensures that debt is repaid over a period that is commensurate with the period over which the capital expenditure provides benefit. This is achieved by applying the methodology set out within the Policy. The revenue budget provision for MRP charges in 2021/22 has been compiled on a basis consistent with this policy

4.0. Alternative Investments

Introduction

- 4.1 The prolonged low interest rate environment has resulted in reduced returns on treasury management investments. Moreover, the introduction of the general power of competence has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, have led many authorities to consider different and more innovative types of investment.
- 4.2 CIPFA recently issued an update to its Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (the Treasury Management Code). One of the main changes introduced by the new Code is to require authorities to incorporate all of the financial and non-financial assets held for financial return in authorities' annual capital strategies.
- 4.3 Separately, the Department for Communities and Local Government consulted on changes to its statutory Guidance on Local Authority Investments. As a result, updated Statutory investment guidance and MRP guidance was issued in 2018. The guidance reinforced the need for commercial investment activity to be financially sustainable, proportionate to overall resources and the Council should have access to the appropriate level of expertise to make informed decisions.
- 4.4 In addition, Her Majesty's Treasury introduced revised lending terms for borrowing from the PWLB on 25 November 2020. Under the revised lending terms, the government has now ended access to the PWLB for Local Authorities that wish to buy commercial assets primarily for yield, as assessed by the statutory section 151 officer. Local Authorities remain free to buy commercial assets primarily for yield, but are not be able to take out new loans from the PWLB in year where they have any plans to buy commercial assets at any point over the following 3 year period (any loans taken out under the old system are not be affected by this change). As a result, of the revised lending terms the government has now cut PWLB lending rates.
- 4.6 The 2021 Capital Expenditure Programme does not include any plans to purchase commercial assets primarily for yield.
- 4.5 **This section of the Capital Strategy will need to be updated if the Council's own agenda for commercial investments evolves.**
- 4.6 It is worth highlighting that all commercial investment activities are subject to approval in accordance with the Council's governance framework for decision making.

Alternative Investment Objectives

- 4.7 The primary objectives of the commercial investment activities:
- Security – to protect the capital sums invested from loss; and

- Liquidity – ensuring the funds invested are available for expenditure when needed.
- 4.8 The generation of **yield** is distinct from these prudential objectives. However, once proper levels of security and liquidity are determined, it is then reasonable to consider what yield can be obtained consistent with these priorities.
- 4.9 Non-core activities and investments would primarily be undertaken by the Council in order to generate income to support the delivery of a balanced budget. Such investments would only be entered following a full assessment of the risks and having secured expert external advice (i.e. where it is relevant to do so)
- 4.10 To ensure that alternative investment plans are financially sustainable, the Council would need to carefully consider the internal funds available for investment and proportionate risk.

Investment Properties

- 4.11 Land and buildings may be acquired for investment purposes rather than for the supply of goods or services or for administrative purposes. Such assets will be classified as Investment Properties. The council already holds a number of properties in this class, and may wish to consider increasing its property portfolio.
- 4.12 Investment properties are measured at their fair value annually (which will ensure the valuation reflects the market conditions at the end of each reporting period). The fair value measurement will enable the Council to assess whether the underlying assets provide security for capital investment. Where the fair value of the underlying assets is no longer sufficient to provide security against loss, mitigating actions will be considered, to ensure that appropriate action is taken to protect the capital sum invested.

Loans to Third Parties

- 4.13 Loans to third parties could be considered, as part of a wider strategy for local economic growth for example. However they may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity.
- 4.14 Such loans should only be considered when all of the following criteria are satisfied:
- The loan is given towards expenditure which would, if incurred by the Council, be capital expenditure;
 - The purpose for which the loan is given is consistent with the Council's corporate / strategic objectives and priorities;
 - Due diligence is carried out that confirms the Council's legal powers to make the loan, and that assesses the risk of loss over the loan term;
 - A formal loan agreement is put in place which stipulates the loan period repayment terms and loan rate (which will be set at a level that seeks to mitigate any perceived risks of a loss being charged to the General Fund, and takes appropriate account of state aid rules) and any other terms that will protect the Council from loss;
 - Prior to any loan being granted, the Council's own cashflow requirements are reviewed to ensure that appropriate levels of liquidity will be maintained.

Other Alternative Investment Opportunities

- 4.15 There are a number of other potential opportunities the Council may want to consider, such as investment in property funds and other institutions such as Credit Unions. As stated above, this would need to be considered in the wider context of the Council's corporate priorities and appropriate due diligence and approvals sought. Such an investment should be considered as a capital expenditure decision, and therefore would form part of the Capital Programme Budget should an 'investment' be supported.

5.0 SECTION 151 OFFICER STATEMENT

Background

- 5.1 The Prudential Code for Capital Finance in Local Authorities (the Prudential Code) plays a key role in capital finance in local authorities. Local authorities determine their own programmes for investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the Local Government Act 2003.
- 5.2 In financing capital expenditure, local authorities are governed by legislative frameworks, including the requirement to have regard to CIPFA's Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.
- 5.3 In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability, the Prudential Code requires authorities to have in place a Capital Strategy that sets out the long term context in which capital expenditure and investment decisions are made, and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.
- 5.4 The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy. The following are specific responsibilities of the Section 151 Officer:
- recommending clauses, treasury management policy/practices for approval, reviewing regularly, and monitoring compliance;
 - submitting quarterly treasury management reports;
 - submitting quarterly capital budget update reports;
 - reviewing the performance of the treasury management function;
 - ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
 - ensuring the adequacy of internal audit, and liaising with external audit;
 - recommending the appointment of external service providers.

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed

5.5 The Capital Strategy provides an overview of the governance process for approval and monitoring of capital expenditure. These processes are well established and are highly effective in ensuring delivery of the Authority's capital investment plans. In addition, the Capital Strategy and Prudential Indicators also demonstrates that the capital expenditure, investment and financing plans of the Authority are robust, affordable and sustainable.

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