

Public Document Pack
SOUTHEND-ON-SEA BOROUGH COUNCIL

Audit Committee

Date: Wednesday, 15th January, 2020

Time: 6.30 pm

Place: Committee Room 1 - Civic Suite

Contact: Colin Gamble (Head of Democratic Services)

Email: committeesection@southend.gov.uk

A G E N D A

- 1 Apologies for Absence**
- 2 Declarations of Interest**
- 3 Minutes of the Meeting held on Wednesday 23rd October 2019** (Pages 1 - 4)
- 4 Treasury Management Policy for 2020/21** (Pages 5 - 38)
Report of the Executive Director (Finance and Resources) attached
- 5 Risk Management Update** (Pages 39 - 42)
Report of the Executive Director (Finance and Resources) attached
- 6 Counter Fraud and Investigation Directorate Quarterly Performance Report** (Pages 43 - 62)
Report of the Executive Director (Finance and Resources) attached
- 7 Internal Audit Service Quarterly Performance Report** (Pages 63 - 88)
Report of the Executive Director (Finance and Resources) attached
- 8 Audit Committee Assessment and Development Update** (Pages 89 - 98)
Report of the Executive Director (Finance and Resources) attached
- **** Information Items**
- 9 CIPFA Fraud and Corruption Tracker Summary Report November 2019**
(Pages 99 - 124)
Attached for information

Members:

Cllr P Collins (Chair), Cllr L Burton (Vice-Chair), Cllr B Ayling, Cllr T Cox, Cllr M Davidson, Cllr N Folkard, Cllr S Habermel, Cllr M Kelly, Cllr I Shead and K Pandya.

This page is intentionally left blank

SOUTHEND-ON-SEA BOROUGH COUNCIL

Meeting of Audit Committee

Date: Wednesday, 23rd October, 2019

Place: Committee Room 1 - Civic Suite

3

Present: Councillor P Collins (Chair)
Councillors L Burton (Vice-Chair), T Cox, M Davidson, N Folkard,
S Habermel, M Kelly, I Shead and Mr. K Pandya

In Attendance: J Chesterton, P Bates, C Gamble, A Barnes, E Allen, R Gill and C
Wisdom (Deloitte)

Start/End Time: 6.30 - 7.50 pm

489 Apologies for Absence

There were no apologies for absence.

490 Declarations of Interest

There were no declarations of interest.

491 Minutes of the Meeting held on Wednesday, 24th July, 2019

Resolved:-

That the Minutes of the Meeting held on 24th July 2019 be confirmed as a correct record and signed.

492 Deloitte: Annual Audit Letter, Audit for the year ended 31 March 2019

The Committee considered a report of the Executive Director (Finance and Resources) presenting the External Auditor's Annual Audit Letter for 2018/19. In addressing the Committee, the External Auditor provided an update on matters in connection with the letter.

Resolved:-

That the Annual Audit Letter for 2018/19, be accepted.

493 Control Environment Assurance

The Committee considered a report of the Executive Director (Finance and Resources) which provided an update on the revisions made to the Control Environment in respect of Risk Management, Counter-Fraud, Bribery & Corruption, Counter Money Laundering, Whistleblowing and the Regulation of Investigatory Powers.

The Committee noted that the policies had been accepted by Cabinet at its meeting held on 17th September. At the meeting of Policy and Resources Scrutiny Committee held on 10th October, Councillors also accepted the policies, but asked that consideration be given to an amendment to the Whistleblowing Policy to address the suggestion put forward by Councillor Shead. An extract of the Scrutiny Committee minutes together with the proposed amendment to the Whistleblowing Policy, drafted by the Executive Director (Legal and Democratic Services), were tabled at our meeting. It was noted that the Control Environment Assurance minute of the Scrutiny Committee had been referred to Council under Procedure Rule 39.

The Committee asked a number of questions which were responded to by officers.

On consideration of the Whistleblowing Policy, the Committee requested the Executive Director (Legal and Democratic Services) to write to all members of the Committee to clarify the position where the Council is not able to resolve concerns raised under the policy without revealing the identity of the employee, worker or contractor.

On discussion of the report, the Head of Internal Audit undertook to submit the action plan on the revised risk management arrangements to the January 2020 meeting of the Committee. The counter fraud action plan would also be presented to the January meeting.

Resolved:-

1. That the revised Risk Management Policy Statement and Strategy set out at Appendix A to the submitted report (including the action plan included at Appendix 2 of that document), be endorsed.
2. That the revised Counter Fraud, Bribery & Corruption Policy and Strategy (Appendix B), the revised Counter Money Laundering Policy & Strategy (Appendix C) and the revised Whistleblowing Policy (Appendix D), be endorsed.
3. That the revised Policy and Procedures for undertaking Directed Surveillance and the use of Covert Human Intelligence Sources (CHIS) (Appendix E – and also the detailed procedures for use of a CHIS as set out in confidential Appendix F), be endorsed.
4. That it be noted that:
 - (a) The Council has not used the surveillance powers available to it under RIPA between 1 April 2018 and the 31st March 2019 and neither has it used any CHIS during this period
 - (b) Thurrock Council has not used any such powers on behalf of Southend-on-Sea Borough Council when undertaking Anti-Fraud work between 1 April 2018 and the 31st March 2019.

5. That the staff training undertaken in 2018/19 and proposed for 2019/20 in connection with RIPA and details of the regulation of CCTV activities as detailed in the report, be noted.

(Councillor Cox asked that it be recorded that he did not support the RIPA Policy)

494 A Simple and Effective Governance Framework

The Committee considered a report of the Executive Director (Legal & Democratic Services) which reviewed the Council's Local Code of Governance (now to be called 'A simple and effective governance framework').

Resolved:-

That Cabinet be recommended to approve the revised Local Code of Governance – A simple and effective governance framework – as set out at Appendix A to the submitted report (Once approved, the Council's Constitution would be updated to reflect the revised framework).

495 Internal Audit Service Quarterly Performance Report

The Committee considered a report of the Chief Executive which provided an update on the progress made in delivering the Internal Audit Strategy and Plan for 2019/20.

The Committee asked a number of questions which were responded to by officers.

Resolved:-

That the progress made in delivering the 2019/20 Internal Audit Strategy, be noted.

496 Information Item

The Committee received and noted the following information item:

Audit Committee Update – helping audit committees to be effective – Issue 29: The CIPFA Statement on the role of the Head of internal Audit.

On consideration of the CIPFA audit update, the Head of Internal Audit undertook to arrange the attendance of Councillor Collins and Folkard at the identified CIPFA training event in London in November 2019.

The Chair encouraged members of the Committee to complete the audit self-evaluation survey, the results of which would be used to identify training needs.

The Executive Director (Finance and Resources) reminded members of the committee of the treasury management briefing to be held on 5th November to be supported by the Council's treasury management advisors.

497 Exclusion of the Public

That, under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the item of business set out below on the grounds that it would involve the likely disclosure of exempt information as defined in Part 7 of Schedule 12A to the Act and that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

498 Control Environment Assurance - Confidential Appendix

Resolved:-

That the confidential appendix, be endorsed.

Chair: _____

Southend-on-Sea Borough Council

Agenda
Item No.

4

Report of Executive Director (Finance and Resources)
to
Audit Committee
on
15 January 2020

Report prepared by: Caroline Fozzard
Group Manager – Financial Planning and Control

Treasury Management Policy for 2020/21
Cabinet Member: Councillor Ron Woodley
Part 1 (Public Agenda Item)

1. Purpose of Report

- 1.1 To submit the treasury management policy for 2020/21 to Audit Committee for scrutiny before approval by Council as part of the annual budget process.

2. Recommendation

- 2.1 **That Audit Committee scrutinises and offers comments on the treasury management policy which comprises the following three documents:**

- **Treasury Management Policy Statement for 2020/21;**
- **Treasury Management Strategy for 2020/21;**
- **Annual Treasury Management Investment Strategy for 2020/21.**

3. Background

- 3.1 The treasury management policy is agreed in advance of the year to which it relates. The policy is then monitored regularly and is updated, as appropriate, to reflect changing circumstances and guidance.
- 3.2 At its meeting of 13 January 2010 the Audit Committee agreed a report on the implementation of the revised CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice. One of the recommendations of the code is that the treasury management policy should be scrutinised in detail by a specialist committee, before being accepted by the authority.

- 3.3 At its meeting of 25 February 2010 Council amended the terms of reference of the Audit Committee to include scrutiny of the treasury management policy. From April 2010 onwards, the Audit Committee has been responsible for ensuring its effective scrutiny.
- 3.4 Since their approval by Council in February 2019 there have been some revisions to the borrowing limits agreed at the July 2019 Council meeting. As a result of the historically low long term borrowing rates available from the Public Works Loan Board (PWLb) and in order to allow the headroom to take advantage of these low rates with further borrowing activity, it was necessary to make the following revisions:
- increase the Operational Boundary for 2019/20 from £290m to £350m;
 - increase the Authorised Limit for 2019/20 from £300m to £360m;
- 3.5 In compliance with the CIPFA Treasury Management Code of Practice the Council's treasury management policy comprises:
- the Treasury Management Policy Statement;
 - the Treasury Management Strategy;
 - the Annual Treasury Management Investment Strategy.
- 3.6 The purpose of the Treasury Management Policy Statement is to set out the scope of the Treasury Management function, the policy on borrowing, debt restructure, investments, delegation and management of risk. The proposed Treasury Management Policy Statement for 2020/21 is attached as **Appendix 1**.
- 3.7 The purpose of the Treasury Management Strategy is to set out how the budgeted financing costs can be achieved. It covers the prospects for interest rates and the strategy on borrowing and debt restructuring. The proposed Treasury Management Strategy for 2020/21 is attached as **Appendix 2**.
- 3.8 The purpose of the Annual Treasury Management Investment Strategy is to set out the investment objectives and the policies on the use of external fund managers, on the investment of in-house managed funds and on the use of approved counterparties. The proposed Annual Treasury Management Investment Strategy for 2020/21 is attached as **Appendix 3**.
- 3.9 Appendices 1, 2 and 3 together form the treasury management policy and are used on a daily basis for the effective running of the treasury management function.
- 3.10 In response to the on-going economic, regulatory and financial market conditions, and in consultation with our treasury management advisers, the treasury management policy has been updated for the 2020/21 financial year. The changes from the revised 2019/20 policy are shown in **Appendix 4**.
- 3.11 The policy and strategy documents are written in order to provide officers and advisers with clear boundaries within which to work but as a result they are written using technical language. Treasury management training has been

offered to all councillors to aid understanding of the issues and further training will be available in the future.

4. Corporate Implications

4.1 Contribution to the Southend 2050 Road Map

The Treasury Management Strategy sets out how the financing costs as part of the Medium Term Financial Plan may be achieved. The treasury management policy together with the prudential indicators, acknowledge how effective treasury management will provide support towards the achievement of the Council's ambition and desired outcomes.

4.2 Financial Implications

The financial implications of the proposed capital programme will be considered in the forthcoming budget reports to Cabinet. Other financial implications are dealt with throughout this report.

4.3 Legal Implications

Compliance with the relevant regulations and codes of practice has been considered throughout this report.

4.4 People Implications

None

4.5 Property Implications

None

4.6 Consultation

The key treasury management decisions are taken in consultation with our treasury management advisers.

4.7 Equalities and Diversity Implications

None

4.8 Risk Assessment

The treasury management policy acknowledges that the successful identification, monitoring and management of risk are fundamental to the effectiveness of its activities.

4.9 Value for Money

Treasury management activities include the pursuit of optimum performance consistent with effective control of the risks associated with those activities.

4.10 Community Safety Implications

None

4.11 Environmental Impact

None

5. Background Papers

5.1 None.

6. Appendices

6.1 Appendix 1 – Treasury Management Policy Statement 2020/21

6.2 Appendix 2 – Treasury Management Strategy 2020/21

6.3 Appendix 3 – Annual Treasury Management Investment Strategy 2020/21

6.4 Appendix 4 – Changes from the revised 2019/20 Treasury Management Policy

SOUTHEND-ON-SEA BOROUGH COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT 2020/21

1 Background

- 1.1 The purpose of this statement is to outline the Council's treasury management policy.
- 1.2 The CIPFA Code of Practice on Treasury Management recommends that Local Authorities:
 - Adopt the CIPFA code;
 - Create and maintain both a Treasury Management Policy Statement and suitable Treasury Management practices;
 - Appoint an officer to whom Treasury Management is delegated;
 - Submit reports regularly.
- 1.3 Cabinet approved adoption of the CIPFA code of Practice for Treasury Management at its meeting on 12 February 2002. CIPFA published a major revision to the Code of Practice for Treasury Management on 27 November 2009, the implementation of which was the subject of a report to Audit Committee submitted to its meeting of 13 January 2010. Since then there have been a number of more minor revisions, the latest being in December 2017.
- 1.4 There is a requirement in the revised code that the treasury management policy should be scrutinised in detail by a specialist committee, before being accepted by the authority, and should be monitored regularly.
- 1.5 The treasury management policy is agreed in advance of the year to which it relates. The policy is then monitored regularly and is updated, as appropriate, to reflect changing circumstances and guidance.
- 1.6 The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management policy, before approval by full Council as part of the approval of the budget.
- 1.7 The Chief Finance Officer (Section 151 Officer under the Local Government Act 1972) is the person responsible for the treasury management function.
- 1.8 The revised code requires that, as a minimum, reporting should include an annual strategy in advance of the year, a mid-year review and an annual report after its close. The reporting and scrutiny of the strategy and policy are dealt with above. Reports on the activities of the treasury management function will be submitted to Cabinet quarterly.

One such report will comprise an annual report for presentation before 31 July of the succeeding year. Another report will be a mid-year review reporting in November of each year.

- 1.9 In the latest version of the CIPFA Code of Practice on Treasury Management the term “investments” now covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment in property portfolios. This may therefore include investments which are not managed as part of normal treasury management and are therefore covered by the Capital Investment Policy which forms part of the Capital Investment Strategy.

2 Duration of the Policy Statement

- 2.1 This Treasury Management Policy Statement covers the 2020/21 financial year.

3 Scope of the Treasury Management Function

- 3.1 The Council defines its treasury management activities as:
- the management of the organisation’s investments and cash flows, its banking, money market and capital market transactions;
 - the effective control of the risks associated with those activities;
 - the pursuit of optimum performance consistent with those risks.
- 3.2 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council.
- 3.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.
- 3.4 The Council acknowledges that responsibility for the effective management and control of risk lies with the authority.

4 Use of a treasury management adviser

- 4.1 The services of a treasury management adviser, Link Asset Services will be used throughout 2020/21 to assist the Council to develop and enhance the performance of the treasury management function.

- 4.2 The role of this adviser is to provide relevant and timely information and advice on all aspects of treasury management.
- 4.3 The Council recognises that responsibility for treasury management decisions remains with the authority at all times.

5 Funding requirements for the capital investment programme

- 5.1 The following methods of funding have been identified as being available to the Council for use in 2020/21:

- Borrowing;
- Use of capital receipts - from the sale of surplus assets;
- Use of Government Grants – e.g. Local Growth Fund, or grants from the Department for Education;
- Other external contributions – e.g. Section 106 agreements;
- Revenue funding – e.g. transferred from the Revenue Account.

- 5.2 No additional funding source will be used without the agreement of the Cabinet.

6 Limits on external borrowings

- 6.1 The Council must set an operational boundary and authorised limit for external debt. The operational boundary is how much external debt the Council plans to take up, and reflects the decision on the amount of debt needed for the Capital Investment Programme for the relevant year. The authorised limit is higher than the operational boundary as it allows sufficient headroom to take account of unusual cash movements.

- 6.2 The table below shows the operational boundary and authorised limits for borrowing for 2019/20 and 2020/21:

	2019/20 Original £m	2019/20 Revised £m	2020/21 Original £m
Operational boundary	290	350	375
Authorised limit	300	360	385

In accordance with the Prudential Code these limits exclude outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998.

- 6.3 When the 2019/20 limits on external borrowing were originally set it was anticipated that £20m of new borrowing would be undertaken in 2018/19 and a further £31m would be undertaken in 2019/20. However, due to the uncertainty around Brexit in the run up to the expected leaving date of 29 March 2019 the PWLB rates reached advantageously low levels and £40m was borrowed in March 2019.

With this borrowing activity there was little headroom to allow further borrowing in 2019/20 should the rates reach new exceptionally low levels, so the limits on external borrowings were revised at the July 2019 meeting of Council to allow the headroom to achieve this. The uncertainty continued and rates continued to be volatile and reached advantageously low levels again in June and August and so £50m has been borrowed in 2019/20 to capture those good rates.

The revised borrowing limits for 2019/20 allowed for this actual borrowing undertaken and a further £20m in case of further unusual rate fluctuations. However, as the cost of borrowing had fallen to record lows and local authorities had been increasing their use of the PWLB, HM Treasury took the decision to increase the margin that applies to new loans from the PWLB by 1% on top of the usual lending terms, with immediate effect from 9th October. Given this increase it is now less likely that the further £20m headroom will be required in 2019/20, so the 2020/21 limits reflect this and includes the planned new borrowing.

7 Policy on sources and types of long term borrowing

- 7.1 The Council's long term borrowing (i.e. for more than one year) for 2020/21 will be via any type of loan from the Public Works Loan Board (which is a statutory body whose function is to lend money to local authorities and other prescribed bodies) or from banks, building societies or other financial institutions as appropriate.
- 7.2 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can issue bonds to raise funds, either in this council's name or collaboratively with other Local Authorities or via the Local Government Association (LGA), and either as a private or public placement.
- 7.3 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow from other Local Authorities.
- 7.4 In addition, if it is deemed to be economically advantageous the Section 151 Officer, in consultation with our Treasury Management advisers, can borrow for the purposes of financing regeneration and other infrastructure related projects.
- 7.5 The PWLB is usually the most economic source available to the Council for long term borrowing. The Council is eligible for HM Treasury's 'certainty rate' which is a discount of 0.2% on standard rates.
- 7.6 Financing arrangements other than borrowing will be in the form of leases. These will be taken out to finance the purchase or use of assets such as equipment or vehicles.

8 Timing of new borrowing

- 8.1 New borrowing will be undertaken as and when required to finance capital. The Council's Section 151 Officer is authorised to make application for loans during 2020/21 that are deemed appropriate for the long term financing of capital. The amount and timing of these loans will have regard to the Council's cash flow, the PWLB interest rates and the future requirements of the capital investment programme.

9 Debt restructuring policy

- 9.1 Some of the Council's borrowings are at a higher interest rate than the current rate of borrowing. To redeem these loans before their maturity date (i.e. to redeem them early) the Council would be required to pay a premium (this is like paying to redeem a mortgage early except the amount of the penalty depends on the prevailing rate of interest). New loans could then be taken out at the current rate. The savings to be made by paying interest at a lower rate need to be offset by the premiums payable before a decision is made as to whether this would be economically advantageous.
- 9.2 Similarly, some of the Council's borrowings can be at a lower interest rate than the current rate of borrowing. To redeem these loans early the Council would receive a discount (this is the opposite of a premium). New loans could then be taken out at the current rate. The discount receivable would need to be offset by the higher rate of interest paid before a decision is made as to whether this would be economically advantageous.
- 9.3 The Council will undertake debt restructuring as and when appropriate opportunities arise. The main objective of a restructure will be to produce reductions in financing costs as part of an overall budget strategy. The advice of our treasury management advisers would be sought. Members would be notified via the quarterly reporting to Cabinet on treasury management activities.

10 Treasury Management Investments

- 10.1 See the Annual Treasury Management Investment Strategy.

11 The approved activities of the Treasury Management operation are as follows:

- Risk management;
- Cash flow management (daily balance and longer term forecasting);
- Investing surplus funds in approved investments;
- Use of brokers for placing investments;
- Investing surplus funds with external fund managers;
- Long term borrowing to fund the capital investment programme;

- Short term borrowing for cash flow purposes;
- Management of debt (including repayment and rescheduling);
- Capital receipts management;
- Leasing arrangements for the Council (including schools);
- Banking activities;
- Training for members and officers;
- Prevention of money laundering.

12 Responsibility for the treasury management function

- 12.1 Under the constitution the Council's Section 151 officer who is the Chief Finance Officer (currently the Executive Director (Finance and Resources)), must take all steps that are considered appropriate for the administration of the financial affairs of the Council. This includes responsibility for the treasury management function.
- 12.2 The table in Annex 1 shows the treasury management activities and the sub-delegated responsibilities from the Chief Finance Officer to others.
- 12.3 Officers are required to explicitly follow policies and procedures.
- 12.4 The training needs of staff and members with treasury management responsibilities are assessed on a regular basis and training is arranged as necessary.

13 Risks

- 13.1 The overriding principle is that it is more important to balance risks than to maximise returns.

Credit and Counterparty risk

- 13.2 This is the risk that the organisation with which we have invested money becomes insolvent and cannot pay us back our investment. A prime objective of treasury management activities is the security of the principal sums invested and this is placed ahead of the investment return. Accordingly, the Council will ensure that robust due diligence procedures cover all external investment.
- 13.3 Treasury Management investment activities are limited to the instruments, methods and techniques referred to in the Annual Treasury Management Investment Strategy. The use of limits and a combined matrix of investment criteria using credit ratings reflect a prudent attitude towards organisations with whom funds may be deposited. Investment activities will be limited to those who meet the criteria in this matrix when the investment is placed, with the exception of the UK part-nationalised bank and the Council's bank, and then limited by other relevant market information.

- 13.4 The policy in respect of those organisations from which the council may borrow, or with whom it may enter into other financing arrangements is set out in this Treasury Management Policy Statement and in the Annual Treasury Management Investment Strategy.

Liquidity risk

- 13.5 This is the risk that there will be insufficient cash available to make payments as they fall due. The Chief Finance Officer will ensure that cash resources are adequate, though not excessive, and that borrowing arrangements are available at all times to enable the Council to achieve its business objectives.

Interest Rate risk

- 13.6 Interest rates will be reviewed as part of the ongoing monitoring arrangements to ensure that, as far as possible, investments are made so as to maintain the return to the Council, whilst retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates.
- 13.7 Regard will be given to the limits imposed by the treasury management policy, particularly the importance of maintaining the security of the monies invested.

Partnership risk

- 13.8 The Council has entered into a Joint Venture with Porters Place Southend-on-Sea LLP and any funding will be mirrored by that of Swan Housing. The partnership risks are mitigated by the agreements drawn up as part of the signing of the contract. There are currently no major partnerships involving private borrowing. Some of the Council's costs are met by 'match funding' where other organisations match the funding that the Council contributes. Where this is the case there may be liquidity risk (see 13.5) if the other organisations do not make their contributions when agreed. Our exposure to this risk will be monitored via the revenue and capital budget monitoring processes.

Market risk

- 13.9 Our long term borrowing is mainly through fixed rate maturity loans, whilst our investments are at both fixed and variable rates. To mitigate the risk as far as possible the Council seeks to find the appropriate balance of investments between short and long term and between variable and fixed rate.

Refinancing risk

- 13.10 Our borrowing arrangements are negotiated, structured and documented, and the maturity profile of these monies are managed, with a view to obtaining offer terms for renewal or refinancing, if

required, which are competitive and as favourable as can reasonably be achieved in the light of market conditions prevailing at the time.

Currency risk

- 13.11 The Council does not have any foreign currency risk as all investments are in pounds sterling.

Inflation risk

- 13.12 The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

Treasury Management Activity	Delegated to:	In their absence, delegated to:
Production of a Treasury Policy each year for approval by the Council prior to the start of the financial year	Group Manager (Financial Planning & Control)	Finance Manager – Capital/ Treasury Management
Staffing and organisation of the Treasury Management function	Group Manager (Financial Planning & Control)	Chief Finance Officer
Ensuring that all staff engaged in Treasury Management receive appropriate training	Group Manager (Financial Planning & Control)	Finance Manager – Capital/ Treasury Management
Ensuring that all members with Treasury Management responsibilities receive appropriate training	Chief Finance Officer	Group Manager (Financial Planning & Control)
Advising the Council's Monitoring Officer when necessary	Chief Finance Officer	Deputy Section 151 Officer
Decisions on long term borrowing	Chief Finance Officer	Deputy Section 151 Officer
Decisions on the restructuring of the Council's debt	Chief Finance Officer	Deputy Section 151 Officer
Taking out new loans/repayment of loans with the PWLB	Group Manager (Financial Planning & Control)	Chief Finance Officer/ Deputy Section 151 Officer
Maintaining adequate and effective cash flow forecasting records to support the decision to lend or borrow	Designated Accounting Technician/Finance Manager	Any other designated Accounting Technician/Finance Manager

Treasury Management Activity	Delegated to:	In their absence, delegated to:
Proposals on placing overnight monies with the Council's bank or in short/long term investments	Finance Manager – Capital/ Treasury Management	Designated Accounting Technician/ Finance Manager
Approval of short/long term investments	Chief Finance Officer	Deputy Section 151 Officer/Group Manager (Financial Planning & Control)
Placing money in investments once approval has been obtained	Finance Manager – Capital/ Treasury Management/ other designated Finance Business Partner/ Senior Finance Business Partner	Group Manager (Financial Planning & Control)
Contact for correspondence with external fund managers	Finance Manager – Capital/ Treasury Management	Other designated Accounting Technician/Finance Business Partner
Decisions on placing with or recalling monies from external fund managers	Chief Finance Officer	Deputy Section 151 Officer
Entering into lease agreements	Chief Finance Officer	Deputy Section 151 Officer
Key contact with the Council's treasury management advisers	Group Manager (Financial Planning & Control)	Finance Manager – Capital/ Treasury Management
Monitoring of actual against budget for debt charges, interest earnings and debt management expenses	Designated Accounting Technician/ Finance Manager	Any other designated Accounting Technician/Finance Manager
Monitoring of performance; average interest rates earned and paid etc.	Designated Accounting Technician/Finance Manager	Any other designated Accounting Technician/Finance Manager
Monthly report to Section 151 officer detailing performance and any non-compliance with the Treasury Management Policy	Finance Manager – Capital/ Treasury Management	Designated Accounting Technician/Finance Manager

SOUTHEND-ON-SEA BOROUGH COUNCIL
TREASURY MANAGEMENT STRATEGY 2020/21

1. Introduction

- 1.1 The Treasury Management Strategy is written in compliance with the CIPFA Treasury Management Code of Practice requirement to review and report policy and strategy before the start of the year. This has been revised following publication of the revised Code of Practice.
- 1.2 The Treasury Management Strategy sets out how the financing costs may be achieved. It needs to be regularly monitored and modified in the light of changing external and internal circumstances.
- 1.3 The objective of the strategy is to optimise the income generated by surplus cash and minimise borrowing costs, consistent with a low level of risk, maintaining capital sums and maintaining liquidity.

2. The Council's Budget

- 2.1 The budget includes provision for the financing costs of the Council's Capital Investment Programme, including interest on external borrowings. Offsetting this, the Council will earn interest by temporarily investing its surplus cash, which includes unapplied and set-aside capital receipts. These budgets depend on many factors, not least the Council's level of revenue and capital budgets, use of reserves, methods of funding the budget requirement, interest rates, cash flow and the Council's view of risk.
- 2.2 The Council can be both a lender and borrower at the same time as it seeks to invest short-term surpluses and fund longer-term capital investment. The timing of the taking of borrowing is important to secure the most advantageous interest rates.
- 2.3 The net budget for financing costs and interest earned on balances is £17.5m in 2020/21.

3. The Council's Cash Surplus and Cash Flow

- 3.1 It is projected that surplus cash balances will average £114m (of which £49m is the estimated sum of medium and long term funds managed by external fund managers) during 2020/21 based on information currently available and historical spending patterns.

4. Interest Earnings (in-house investments)

- 4.1 At the date of this report, the Bank of England base rate was 0.75%. Based on economic forecasts it is very difficult to predict the timing of any change in interest rates, however it has been assumed that during 2020/21 the bank base rate will increase to 1% in December 2020. The average interest earned by the Council on its in-house lending is likely to be 1.07% but this does depend on market conditions.
- 4.2 Sensitivity analysis shows that a difference of 0.5% in interest rates would make a difference of £570k in external interest earned and a difference of £1m in average balances would make a difference of £19k in interest earned in a full year. This risk is reflected in the annual review of the robustness of estimates for the Council Budget undertaken by the Chief Finance Officer.

5. Long Term Borrowing

- 5.1 There is no Central Government funding to support borrowing by the Council to fund capital projects. Under the Prudential Code the cost of any additional borrowing has to be financed by the Council.
- 5.2 The funding available to support capital investment is based on an assumption that the Council will undertake borrowing in 2020/21 of £45m, £13m of which relates to invest to save schemes. The revenue impact of this borrowing is funded in the Revenue Budget proposals. As an indicative guide to this revenue impact, there is a cost of approximately £70k for every £1m borrowed.
- 5.3 The Capital Financing Requirement (CFR) is the council's theoretical need to borrow but the Section 151 Officer can manage the council's actual borrowing position by either:
- 1 - borrowing to the CFR;
 - 2 - choosing to use temporary cash flow funds instead of borrowing (internal borrowing) or;
 - 3 - borrowing for future increases in the CFR (borrowing in advance of need).

The Council is likely to begin 2020/21 in the second of the above scenarios. However, as the 2020/21 financial year progresses a combination of scenarios 1, 2 and 3 will be considered, as appropriate.

- 5.4 This authority will only borrow in advance of need where there is a clear justification for doing so and will only do so for the current capital investment programme or to finance future debt maturities.
- 5.5 So far in 2019/20 five new PWLB loans have been taken out:
- June 2019 - £10m at 2.16% for 48 years;
 - August 2019 - £10m at 1.99% for 45 years and 1 month;
 - August 2019 - £10m at 1.99% for 46 years;

- August 2019 - £10m at 1.84% for 47½ years;
- August 2019 - £10m at 1.84% for 49 years;

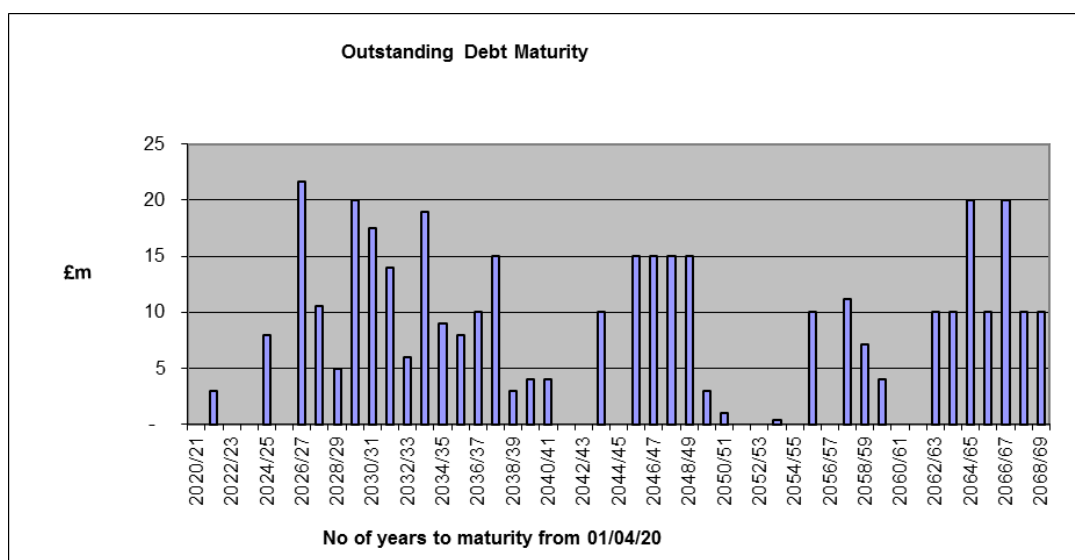
5.6 The Council's current outstanding PWLB loans for both General Fund and Housing Revenue Account, which will need to be repaid, are set out below:

Southend-on-Sea Borough Council		Main Schemes (£m)	Invest to Save Schemes (£m)	Total (£m)
Estimated opening position as at 31 March 2020	GF	232	3	235
	HRA	75	0	75
	Total	310		
Estimated new loans in 2020/21	GF	32	13	45
	HRA	0	0	0
	Total	45		
Repayments in 2020/21	GF	0	0	0
	HRA	0	0	0
	Total	(0)		
Estimated closing position as at 31 March 2021	GF	264	16	280
	HRA	75	0	75
	Total	355		

5.7 Outstanding debt relating to services transferred from Essex County Council (ECC) on 1 April 1998, remains under the management of ECC and is set out below. Southend Borough Council reimburses the debt costs incurred by the County.

ECC transferred debt	Amount (£m)
Opening position as at 31 March 2020	10.7
New loans in 2020/21	0
Repayments in 2020/21	(0.6)
Closing position as at 31 March 2021	10.1

5.8 The graph on the next page shows the repayment profile of the Council's PWLB borrowings if all new loans are included to reflect the funding of the proposed capital investment programme and the refinancing of debt.



It shows the gaps in the repayment profile and that there is no one year where the loan maturities are excessive.

The next maturity date of any PWLB debt redemption is March 2022 and is for a sum of £3m (General Fund: £2.2m, Housing Revenue Account (HRA): £0.8m).

- 5.9 The potential for the early redemption of high interest loans is reviewed periodically, however the interest savings from the repayment of these loans is usually offset by the premiums that must be paid on their redemption and it has not yet been advantageous for the Council to discharge these loans prematurely. This followed advice from our treasury management advisers which demonstrated the excessive cost to the Council of any debt restructuring. Further advice from our treasury management advisers will be sought at the appropriate time about the potential for restructuring of debt and the timing of such a restructure.
- 5.10 Long term borrowing will normally be taken from the Public Works Loan Board (PWLB) since this is usually the most economic source available to the Council. If other sources are thought to be more advantageous and are permitted under the relevant legislation they will be considered.
- 5.11 As at 17 December 2019 rates of borrowing (from the PWLB) were between 3.09% and 3.13% for loans between 20 and 30 years (these rates include the certainty rate discount of 0.2%). During 2020/21 the investment and borrowing interest rates will be kept under review and the further use of capital balances will be considered in lieu of new borrowing where this is advantageous.
- 5.12 Where it is considered appropriate to take out new borrowing, regard will be given to the existing repayment profile (see 5.8 above) and the need for a spread of maturity dates to ensure that a significant value of loans do not mature at the same time. Loans are taken out for a range of periods in order that the Council continues to balance its debt profile

over the longer term and so is not unduly exposed to the prevailing interest rates at the time of the possible debt replacement.

6. Monitoring and Review Arrangements

6.1 During 2020/21, within 7 working days of each month end, the Section 151 Officer will receive a report detailing performance and any non-compliance with the treasury management policy. He will either approve the report or raise the necessary queries to satisfy himself in relation to:

- (i) all transactions being properly authorised
- (ii) all transactions being with approved counterparties
- (iii) all transactions being in accordance with the Council's approved policy
- (iv) monitoring of security and liquidity (i.e. spread of investments by long term credit rating, financial sector, country, maturity profile)
- (v) in-house investment performance against 7 day LIBID
- (vi) investment performance for external fund managers for the relevant period

6.2 In addition to the monthly reports:

- (i) monitoring reports will be included in the regular Performance Monitoring report
- (ii) any changes affecting the treasury management strategy will be reported to Audit Committee for scrutiny and Cabinet for recommending to Council for approval.

6.3 Benchmarking that considers security and liquidity will be achieved by appropriate comparisons with relevant statistical data.

This page is intentionally left blank

SOUTHEND-ON-SEA BOROUGH COUNCIL

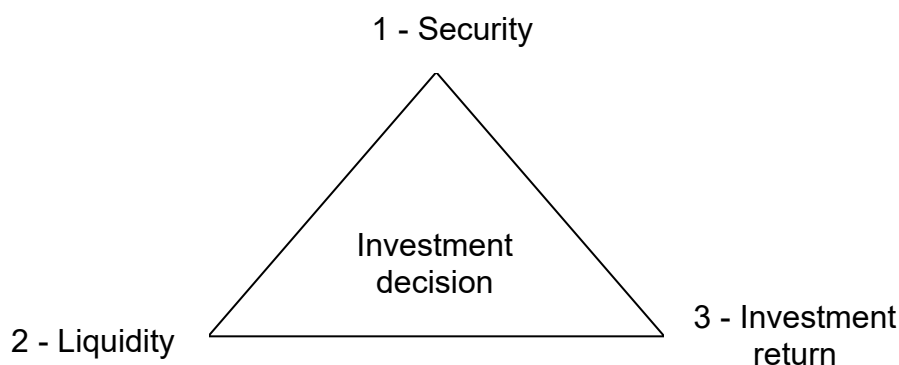
ANNUAL TREASURY MANAGEMENT INVESTMENT STRATEGY 2020/21

1 Scope of this strategy

- 1.1 This investment strategy covers Treasury Management investments only. (Capital investments including service and commercial investments and loans are covered in the Capital Investment Policy which is Annex 1 to the Capital Investment Strategy.)

2 Treasury Management Investment Objectives

- 2.1 To secure the principal sums invested
- 2.2 To maintain liquidity (i.e. adequate cash resources)
- 2.3 To optimise the income generated by surplus cash in a way that is consistent with a prudent level of risk
- 2.4 Security and liquidity are placed ahead of the investment return. This is shown in the diagram below:



- 2.5 Subject to the above objectives being satisfactorily met, consideration will be given to environmental, social and governance (ESG) factors for the funds and financial institutions being invested in. This is an area that is relatively new but is becoming more main-stream with more funds and financial institutions reporting on their ESG policies. It should be noted that high relevance to ESG-related considerations does not necessarily correlate to high credit quality.

3 Policy on use of external fund managers

- 3.1 The Council currently has monies placed with five external fund managers to use their knowledge and experience to invest on our behalf the medium and long term funds that are, under normal circumstances, not required for day to day cash flow purposes. These funds are summarised below:

Type of fund	Fund manager	Estimated average balance in 2020/21 (£m)
Property Fund	Lothbury Investment Management Limited	13.6
Property Fund	Patrizia Property Investment Managers LLP	14.8
Short Dated Bond Fund	AXA Investment Managers UK Limited	7.7
Short Dated Bond Fund	Royal London Asset Management	7.7
Enhanced Cash Fund	Payden & Rygel Global Limited	5.1
Total		48.9

- 3.2 Withdrawals may be made during 2020/21 so that a proportion of the council's debt can be repaid or the monies invested as part of the in-house managed funds. Conversely, monies may be placed with the existing and/or a new fund manager during 2020/21 to take full advantage of the knowledge and experience of fund managers in making investment decisions. As to whether monies are deposited or withdrawn, the reason and timing of the decision will have regard to the council's cash flow, relevant interest rates and advice from our treasury management advisers.
- 3.3 In consultation with our treasury management advisers and if appropriate the Section 151 officer will appoint one or more new fund managers in 2020/21 to enable investment of monies.
- 3.4 During 2020/21, if appropriate, the Section 151 officer will approve the placing of monies in Property Funds and will approve the direct investment in property. Any resulting updates to the capital investment programme would be submitted to Cabinet for approval.
- 3.5 During 2020/21, if appropriate, the Section 151 officer will approve the placing of monies in Short Dated Bond Funds or Enhanced Cash Funds.

4 Policy on investment of in-house managed funds

- 4.1 The remaining funds will be managed in-house with the investment period and amounts being determined by the daily cash flow requirements of the Council. Cash flow forecasts will be produced in order to inform in-house investment decisions.

- 4.2 This authority has accepted the risk of placing funds with financial institutions, rather than solely with the UK government Debt Management Office. However, the risk is minimised by this Annual Treasury Management Investment Strategy, which restricts the types of investment, the counterparties used and the limits for these counterparties.
- 4.3 Government guidance recommends that specified and non-specified investments are identified in the Investment Strategies of local authorities. Specified investments have relatively high security and liquidity, with high credit quality and a maturity of no more than a year. Non-specified investments are investments that do not fall into this category. The types of investment in this strategy and whether they are specified or non-specified are set out in Annex A.
- 4.4 During 2020/21 the Section 151 officer will, if appropriate, approve the placing of monies in deposit accounts, fixed term deposits or certificates of sterling cash deposits up to five years, subject to the proposed banks and building societies satisfying the investment criteria in a combined matrix of credit ratings, and having regard to other market information available at the time.
- 4.5 During 2020/21 the Section 151 officer will, if appropriate, approve the placing of monies in Money Market Funds, term repurchase arrangements, Treasury bills, with other Local Authorities or the Debt Management Office. The regulations regarding Money Market Funds have changed and all references to Money Market Funds now relate to Low Volatility Net Asset Value (NAV) funds, Constant NAV funds and Variable NAV funds.
- 4.6 During 2020/21 the Section 151 officer will, if appropriate, approve the investment of monies into Joint Ventures or Development Companies (either partly or wholly owned by the Council) focused on regeneration and other infrastructure related projects, subject to the necessary due diligence being satisfactorily completed and in consultation with our treasury management advisers. The provision of loan facilities to such organisations would count as capital investment and any resulting updates to the capital investment programme would be submitted to Cabinet for approval.
- 4.7 Where credit ratings are used to assess credit risk, they will be checked when an investment is taken out to ensure that investment satisfies the criteria in this Treasury Management Investment Strategy. Our treasury management advisers provide alerts when credit ratings are changed by the three main rating agencies. If the credit ratings of an institution or investment no longer satisfy the criteria the monies will be withdrawn as soon as possible. This would depend on the maturity date or notice period.
- 4.8 During 2020/21 the Section 151 officer will, if appropriate, approve the short term borrowing of monies from other Local Authorities or the PWLB in order to manage the cash flow and maintain liquidity.
- 4.9 Fixed term deposits may be made directly with the banks and building societies or through the use of a broker. Monies will be placed with other Local Authorities through the use of a broker. Investments in Certificates of

Deposit and Treasury bills will be made through the use of a custodian account. The Council acknowledges that it retains responsibility for all investment decisions made whether they are made on its behalf or not.

- 4.10 When investing in-house managed funds, the following are considered; the type of investment, the individual counterparty, the amount that can be invested, the method of placement of monies. These are summarised in Annex A.
- 4.11 The services of our treasury management adviser, Link Asset Services will be used throughout 2020/21 to provide advice as well as credit rating and other market information regarding counterparties and types of investment. However, the Council recognises that responsibility for investment decisions remains with the authority at all times.

5 Investment Criteria for Funds Managed In-house

- 5.1 All financial institutions considered for investment will be assessed for credit worthiness against a combined matrix of pre determined criteria using available credit ratings. Credit ratings are assessments by professional organisations of an entity's ability to punctually service and repay debt obligations. Credit ratings are used by investors as indications of the likelihood of getting their money back in accordance with the terms on which they invested.
- 5.2 The credit rating components used in the matrices comprise:
- Short term ratings;
 - Long term ratings.

Ratings provided by all three credit rating agencies will be consulted and a counterparty will be considered for investment if it meets the ratings criteria of at least one of the agencies.

- 5.3 The short term rating covers obligations which have an original maturity not exceeding one year. The short-term rating places greater emphasis on the liquidity necessary to meet financial commitments. All three credit rating agencies provide short term ratings. The ratings are expressed from F1+ (highest credit rating) through to D (highest default risk) for Fitch, from A-1+ (highest credit rating) through to D (highest default risk) for Standard and Poors, and from P-1 (highest credit rating) through to NP (highest default risk) for Moody's.
- 5.4 The long term ratings generally cover periods in excess of one year. Due to the larger time horizon over which the rating is determined, the emphasis shifts to the assessment of the ongoing stability of the institution's prospective financial condition. All three credit rating agencies provide long term ratings. The ratings are expressed from AAA (highest credit rating) through to D (highest default risk) for Fitch and Standard and Poors and from AAA (highest credit rating) through to C (highest default risk) for Moody's.

- 5.5 In order to balance the objective of securing the maximum level of return on investments with a prudent level of risk a matrix of criteria will be adopted as a starting point to determine the acceptability of a potential investment.
- 5.6 These matrices are set out below:

If the short and long term ratings meet the following criteria from a minimum of one of the ratings agencies:

For Lending of up to 6 months to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A-	A-	A3

For Lending of up to 12 months to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	A	A	A2

For Lending of up to 3 years to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1	A-1	P-1
Long term rating minimum	AA-	AA-	Aa3

For Lending of up to 5 years to Banks and Building societies:

	Fitch	S&P	Moodys
Short term rating minimum	F1+	A-1+	P-1
Long term rating minimum	AA+	AA+	Aa1

- 5.7 An example of the use of this credit ratings matrix as at 17 December 2019 is shown below (the long and short term ratings are Fitch, then Standard and Poors, then Moodys).

Financial Institution	Long Term Rating	Short Term Rating	Maximum length of investment
The Bank of New York Mellon	AA AA- Aa1	F1+ A-1+ P-1	5 years
Royal Bank of Canada	AA AA- Aa2	F1+ A-1+ P-1	3 years
Standard Chartered Bank	A+ A A1	F1 A-1 P-1	12 months

- 5.8 The Council's treasury management advisers, Link Asset Services, will continually review the appropriateness of our investment criteria and continue to develop a best practise counterparty list. The latest advice has now been incorporated in this Strategy, which is set out below.
- 5.9 The individual ratings for some banks and building societies are low which means that they do not meet the criteria in our credit ratings matrix. However, this does not take account of part nationalised banks (currently The Royal Bank of Scotland Plc and National Westminster Bank Plc). These banks can be included in the counterparty list if they continue to be part nationalised or they meet the criteria of our credit ratings matrix in paragraph 5.6. An example of the institutions meeting the criteria for the UK will therefore include:
- Bank of Scotland Plc (RFB)
 - Lloyds Bank Plc (RFB)
 - The Royal Bank of Scotland Plc (RFB)
 - National Westminster Bank Plc (RFB)
 - Barclays Bank Plc (NRFB)
 - HSBC Bank Plc (NRFB)
 - Nationwide Building Society
 - Santander UK Plc
- 5.10 The largest UK banks were 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" and is a regulatory initiative created in response to the global financial crisis to improve the resilience and resolvability of banks. The initials RFB and NRFB in paragraph 5.9 refer to whether the bank is the Ring-fenced Bank or the Non Ring-fenced Bank. Each part of the bank has an individual credit rating and for any potential investment the counterparty would be considered against the criteria in this strategy in the normal way.
- 5.11 Counterparties that are manually added back to the list will have a maximum length of investment of two years. Amendments to the counterparty list can happen at any point in time.
- 5.12 In addition, for practical purposes the Council's bank will form part of the counterparty list, whether or not it meets the criteria in our credit ratings matrix.
- 5.13 Regard will be given to forward looking rating warnings from the three main credit rating agencies (i.e. rating watches and outlooks) provided by our treasury management advisers.
- 5.14 The current advice from DCLG and CIPFA is not to rely solely on the credit rating agencies and the Council recognises that ratings should not be the sole determinant of the quality of an institution. So regard will also be given to market information such as the financial press, and officers will engage with their advisers to maintain a monitor on market pricing (such as share and 'credit default swap' prices) and other such information pertaining to the banking sector. Where available credit information, other

than credit ratings has been used, this will be documented when the investment decision is made.

- 5.15 Consideration will also be given to Link Asset Services' rating methodology approach, where counterparties are put into bands of risk. These reflect the differences in credit quality of suggested duration and counterparties are assigned a risk number/colour.
- 5.16 The achievement of an appropriate balance between short-term and longer-term deposits will be driven by the credit quality of counterparties, the council's cash flow requirements, and the need to achieve optimum performance from our investments consistent with effective management of risk.

6 Investment Limits for Funds Managed In-house

- 6.1 The ratings agencies produce a credit rating for each country, called a sovereign rating. The ratings are expressed from AAA (highest) to D (lowest). The following limits have been set for an investment with a bank or building society whose parent company is registered in a country with a sovereign rating from Fitch and Standard and Poors (S&P) of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1. Sovereign ratings provided by all three credit rating agencies will be consulted and the lowest rating will be taken.

Country Sovereign Rating	Limit * All except UK (£ million)
AAA/Aaa	20
AA+/Aa1	5
Lower than AA+/Aa1	0

* These limits relate to the principal sums invested and do not include any accrued interest on that principal.

- 6.2 These limits will also apply to supranationals (international organisations whereby member states transcend national boundaries or interests to share in the decision-making and vote on issues pertaining to the wider grouping). An example of a supranational is the European Investment Bank.
- 6.3 Fitch and S&P have set the UK's sovereign rating at AA and Moodys have set it at Aa2. Therefore, to ensure the continued use of UK institutions that fall within our investment criteria, the country sovereign rating limits exclude the UK. The limit will therefore remain at £20 million for all counterparties where the parent company is registered in the UK.
- 6.4 Where the parent company of a bank is not registered in a country with a sovereign rating from Fitch and S&P of AAA or AA+ or a sovereign rating from Moody's of Aaa or Aa1 but that bank's UK operations are ring-fenced to the UK (as is the case for Santander UK), if these banks are included in the counterparty list they will have a counterparty limit of £20 million.

6.5 £20 million is 18% of the authority's estimated amount of investments for 2020/21 of £114m. £5m is 4% of the total estimated investments. These are upper limits and would only be fully used in exceptional circumstances as, under normal circumstances, diversification is sought to reduce counterparty risk. These limits are deemed appropriate by our Treasury Management advisers.

6.6 To minimise counterparty risk, the limit on any investment with a bank or building society (with the exception of the Council's bank which is currently Barclays Bank) will be determined in the following way:

- consider the country in which the parent company of the bank or building society is registered
- use the sovereign rating of that country to apply the limits above
- consider the cumulative balance of funds already held in various investment products with that bank or building society
- consider the cumulative balance of funds already held in various investment products for any related group of financial institutions
- determine the remaining amount that can be placed with that bank or building society

For example, the limit on an investment with Lloyds Bank Plc would be determined in the following way:

Steps to determine limit: <i>(for illustrative purposes only and not an indication of actual investments)</i>	Remaining limit available at each stage:
Lloyds Bank Plc is part of the Lloyds Banking Group which is registered in the UK	£20 million
£4 million already placed in an instant access account with Lloyds Bank Plc	£16 million
£5 million already placed in a fixed term deposit with Lloyds Bank Plc	£11 million
£6 million already placed in a notice account with Bank of Scotland Plc (part of the Lloyds Banking Group)	£5 million
Therefore the maximum investment would be £5 million	

6.7 The Council's bank is the exception to these investment limits however, and under normal circumstances our intention would be to comply with a counterparty limit of £30 million, to enable the efficient and effective management of the Council's cash flow.

6.8 The limit on deposits in Money Market Funds will be £20 million with any one AAAm/AAAf rated (or equivalent) liquidity fund. These work in the same way as a deposit account but the money in the overall fund is invested in a number of counterparties, therefore spreading the counterparty risk.

- 6.9 There are products being developed that are similar to, but not the same as Money Market Funds, such as 'term repurchase arrangements'. The risk associated with these funds is somewhere between a fixed term deposit and a Money Market Fund. The Section 151 officer will approve the placing of monies in these types of fund up to a maximum of £20 million per fund, if deemed appropriate and in consultation with our treasury management advisers.
- 6.10 Given the prevailing financial market conditions, financial institutions will inevitably devise various investment products to offer enhanced returns. The Council's Section 151 Officer will consider these in consultation with our treasury management advisers and will approve the placing of monies in such investment products with appropriate limits, only after the options and their associated risks have been fully analysed by the treasury management team and our treasury management advisers.
- 6.11 To maximise flexibility, there is no limit on deposits with the UK Government (e.g. Debt Management Office, HM Treasury bills). These deposits will have a maximum duration of 6 months.
- 6.12 The limit on deposits with other Local Authorities will be £40 million which is 35% of the authority's estimated amount of investments for 2020/21 of £114m. These deposits will have a maximum duration of 5 years. This is an upper limit and would only be fully used in exceptional circumstances. The limit is higher than the limit for other counterparties such as banks and other financial institutions due to the lower counterparty risk associated with Local Authorities. These limits are deemed appropriate by our Treasury Management advisers.

7 Fund Managers investment criteria

- 7.1 Investments undertaken by external fund managers on behalf of the Council can only be placed in certain types of investment as permitted under the Local Government Act. The types of investment, counterparties and limits used by each fund manager are set out in their Investment Management Agreement.
- 7.2 The Council's Section 151 Officer is authorised to amend these Investment Management Agreements as appropriate to reflect the needs of the Council, after fully considering the options and their associated risk and in consultation with the Council's treasury management advisers. Subject to the relevant due diligence being undertaken, the Investment Management Agreements could include investment in asset classes such as gilts, corporate bonds, property or equities, or investment in a multi asset fund.
- 7.3 The limit on deposits in Property Funds will be £25 million with any one fund that passes the selection process.
- 7.4 The limit on deposits in Short Dated Bond Funds will be £20 million with any one fund that passes the selection process.

- 7.5 The limit on deposits in Enhanced Cash Funds will be £20 million with any one fund that passes the selection process.
- 7.6 The performance and associated risk will be assessed on an on-going basis through half yearly strategy meetings with each fund manager and the Council's treasury management advisers. Any appropriate action would be identified and taken in consultation with those advisers.

8 Markets in Financial Instruments Directive (MiFID II)

- 8.1 MiFID is the framework of European Union legislation for investment intermediaries that provide services to clients around financial instruments such as shares, bonds, units in collective investment schemes and derivatives and the organised trading in such financial instruments.
- 8.2 This was revised by MiFID II to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection. It recognises that investors have different levels of knowledge, skill and expertise. The application of specific regulatory obligations under MiFID depends on a client's 'regulatory' category.
- 8.3 Local Authorities are categorised as retail clients by default but may 'opt up' to become elective professional clients if certain criteria are satisfied. This Council satisfies the criteria to become an elective professional client and has 'opted up' where appropriate to ensure that it can continue to be eligible to invest in the current range of counterparties and investment products, as some are not available to retail clients.
- 8.4 MiFID II does not cover simple term deposits as it is only focussed on regulated products. This includes our investments in Money Market Funds, enhanced cash funds, short dated bond funds and property funds. The Council is classed as an elective professional client for all its relevant counterparties except for certain Money Market Funds where the fund has confirmed there is no requirement to 'opt up' as the products can continue to be used as a retail client. The Council's designation under MiFID II will be regularly reviewed to ensure it remains appropriate.

Type of Treasury Management Investment	Individual Counterparty	Limit	Method of placement	Specified/non-specified
Deposit accounts	Bank or building society that meets the criteria of our combined matrix of credit ratings, or one of the part nationalised banks	Per bank or building society, based on country sovereign rating	Directly or through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Fixed term deposits			Directly or through a broker	
Certificates of sterling cash deposits			Custodian account	
Money Market Funds	AAAm/AAAf rated* (or equivalent) liquidity fund	Per fund	Directly or via an on-line site for managing money market funds	Specified
Property Funds	Via selection process	Per fund	Directly or through a broker	Non-specified (more than 1 year)
Short Dated Bond Funds	Via selection process	Per fund	Directly	Non-specified (more than 1 year)
Enhanced Cash Funds	Via selection process	Per fund	Directly	Non-specified (more than 1 year)
Term repurchase arrangements	AAAf/S1 rated [#]	Per fund	Directly	Specified (if 1 year or less), Non-specified (if more than 1 year)
Other Local Authorities	Depends on which Local Authorities want to borrow money at that time	For total invested with other Local Authorities	Through a broker	Specified (if 1 year or less), Non-specified (if more than 1 year)
Debt Management Office	UK Government	For total invested with UK Government	Directly	Specified
Treasury Bills			Custodian account	

* A fund with a principal stability rating of 'AAAm/AAAf' (or equivalent) has an extremely strong capacity to maintain stability and to limit exposure to losses of the principal sums invested due to credit, market and/or liquidity risks.

[#] A fund with a credit quality rating of 'AAAf' has a portfolio holding that provides extremely strong protection against losses from credit defaults. A fund with a volatility rating of S1 possesses low sensitivity to changing market conditions.

This page is intentionally left blank

SOUTHEND-ON-SEA BOROUGH COUNCIL

CHANGES FROM THE 2019/20 TREASURY MANAGEMENT POLICY

Appendix	Paragraph	Change	Reason for the change
1	Paragraph removed	This referred to access to the 'project rate', a concessionary rate to support specified strategic local capital investment projects which was a discount of 0.4% on standard rates. This rate is no longer available.	To take out information no longer relevant.
1 37	13.8	A sentence has been added to this paragraph relating to the Joint Venture with Porters Place Southend-on-Sea LLP.	To reflect updated circumstances.
3	2.5	Paragraph added regarding Environmental, Social and Governance considerations.	To reflect updated circumstances.
3	4.6	The wording of the paragraph has been amended to be explicit about investment in Joint Ventures to reflect the arrangements for Better Queensway and any other Joint Ventures.	To reflect updated circumstances.
3	7.3	Increase in the limit on deposits in Property Funds from £20 million to £25 million with any one fund that passes the selection process.	To provide greater flexibility of the strategy

This page is intentionally left blank

Southend-on-Sea Borough Council

Report of the Executive Director (Finance and Resources)

to

Audit Committee

on

15 January 2020

Report prepared by: Andrew Barnes, Head of Internal Audit

Agenda
Item No.

5

Risk management update

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the revised risk management policy statement and strategy approved by Cabinet on 17 September 2019 and Council on 24 October 2019.

2. Recommendations

- 2.1 **The Audit Committee notes the delivery of implementing the revised risk management policy statement and strategy.**

3. Risk Management Policy Statement and Strategy

- 3.1 The Cabinet approved the revised risk management policy statement and strategy on 17 September 2019. This was called into Policy and Resources Scrutiny Committee on 10 October 2019 which referred the item to Full Council on 24 October 2019 where it was approved.
- 3.2 Subsequently work has continued on the implementation of the strategy. This has been focussed on accessing two key elements of the Council's arrangements as these are considered important to the effective implementation of the strategy:
- Governance Boards – being the revised way the Council is seeking to manage itself and the delivery of the Southend 2050 outcomes
 - Better Queensway project management arrangements – being the most significant project and investment that the Council is currently undertaking.
- 3.3 Attendance at the Governance Boards commenced in October, however this identified that they were not yet sufficiently embedded with the necessary workflow to establish a proper understanding of the risks that they were encountering. Senior Management and the Good Governance Group have also undertaken a review of the role of each of the Governance Boards and will be re-launching these in early 2020 to clarify all staff's understanding of their role in the delivery of simple and effective governance. Therefore this element of the implementation has been deferred until the re-launched Governance Boards become established.

- 3.4 The Better Queensway Operational Management Group was attended in November at which the key risks were highlighted and discussed by each of the eight workstreams. These risks have been captured in a risk register and will be reported to, discussed and challenged with the Partnership Board to ensure that there is agreement that these are the key risks and that the approach is dealing with them is appropriate.
- 3.5 In addition the corporate risk register has been reviewed and updated and is being reported to Cabinet on 16 January 2020, therefore Members will be able to access and review the current position of the corporate risk register within the agenda papers for that meeting.
- 4. Reasons for Recommendations**
- 4.1 One of the purposes of the Audit Committee is to provide independent assurance on the adequacy of the risk management framework, therefore understanding and overseeing the approach to risk management enables the Committee to achieve this purpose.**
- 5. Corporate Implications**
- 5.1 Contribution to the Southend 2050 Road Map
- The corporate risk management arrangements underpins the operational effectiveness of the Council's corporate governance arrangements and specifically monitors progress of managing key risks associated with the successful delivery of Southend 2050 Road Map and Outcomes.
- 5.2 Financial Implications
- Any financial implications arising from identifying and managing risk will be considered through the normal financial management processes. Proactively managing risk can result in reduced costs to the Council by reducing exposure to potential loss.
- 5.3 Legal Implications
- The Accounts and Audit Regulations 2015 require the Council to ensure that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's function and which includes the arrangements for the management of risk.
- 5.4 People Implications
- Any people implications arising from identifying and managing risk will be considered through the Council's normal business management processes.
- 5.5 Property implications
- Any property implications arising from identifying and managing risk will be considered through the Council's normal business management processes.
- 5.6 Consultation
- Consultation has taken place with key stakeholders.
- 5.7 Equalities and Diversity Implications
- Corporate equalities considerations have been considered in the drafting of the risk management strategy and corporate risk register and any specific equality related risks have been identified for the Council.

5.8 Risk Assessment

Failure to implement a robust assurance framework which includes fit for purpose risk management arrangements increases the risk that Council objectives will not be delivered.

5.9 Value for Money

Effective forecasting and timely management of risk is a key factor in preventing waste, inefficiency and unnecessary or unplanned use of resource.

5.10 Community Safety Implications

Any community safety implications arising from identifying and managing risk will be considered through the Council's normal business management processes.

5.11 Environmental Impact

Any environmental implications arising from identifying and managing risk will be considered through the Council's normal business management processes.

6. Background Papers

- The Accounts and Audit Regulations 2015
- Risk management policy statement and strategy
- Corporate risk register as being reported to Cabinet on 16 January

8. Appendices

Appendix 1 Updated risk management policy and statement action plan

Ref	Implementation Action Plan	Estimated Timing	Progress To Date
1	General communications to the organisation following approval of the Policy Statement and Strategy	October 2019	Communication with performance leads undertaken
2	Attendance at four 2050 Governance Boards to capture programme / corporate risks Identification of Risk Champions	October 2019	Attendance at Governance Boards commenced but deferred Performance lead risk champions in place
3	Attendance at Good Governance Group to workshop corporate risks and procedures	October 2019	Deferred pending update to the Governance Boards
4	Attendance at CMT to propose risk management procedures and seek approval for operational guidance documents	November 2019	Deferred pending update to the Governance Boards
5	Attendance at Directorate Management Team Meetings to promote risk management and new approach	December 2019	Deferred pending completion of updated arrangements
6	Refresh of Corporate Risk Register	December 2019	Phase 1 refresh being reported to Cabinet
7	Attendance at service team meetings to promote new approach	March 2020	To be undertaken following completion of updated arrangements
8	Meetings with outcome leads / groups to workshop risks	March 2020	To be undertaken following completion of updated arrangements
9	Refresh of Corporate Risk Register	March 2020	Phase 2 to be undertaken following completion of updated arrangements
10	Update and refresh of this action plan for 2020/21 as part of the Annual Review of Risk Management	May 2020	To be undertaken following completion of updated arrangements
11	Independent review of Risk Management for inclusion in Annual Report and Head of Internal Audit Opinion, to manage conflict of interest for HoIA	May 2020	To be undertaken following completion of updated arrangements

Southend-on-Sea Borough Council

Report of the Executive Director (Finance and
Resources)

to

Audit Committee

on

15 January 2020

Report prepared by: Shaun Dutton, Acting Senior
Investigations Officer

Agenda
Item No.

6

Counter Fraud & Investigation Team: Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit committee on the progress made by the Counter Fraud & Investigation Team (CFIT) in the formation of a new team and delivering the Counter Fraud Strategy and Work Programme for 2019/20.

2. Recommendation

- 2.1 **The Audit Committee notes the performance of the Counter Fraud & Investigation Team over the last three months.**

3. Introduction

- 3.1 The shared counter fraud service agreement with Thurrock Council (the Counter Fraud & Investigation Directorate) ended on 4 October 2019.
- 3.2 As a result 4 Southend Borough Council (SBC) staff were withdrawn from the shared unit to form a counter fraud team dedicated to countering fraud, corruption, bribery and financial impropriety against SBC. This team is comprised of 3 investigators and an intelligence analyst and is currently called the Counter Fraud & Investigation Team.
- 3.3 As Thurrock Council controlled the management and structure of the previous team, much of the work to date has concentrated on developing the structure, processes and capabilities of the new team to ensure counter fraud work continues on a 'business as usual' basis and laying the foundations for developing the team into an effective and value for money service for the Council.
- 3.4 A Development Plan has been drafted (Appendix 2) to define the tasks necessary to achieve these objectives and which is currently on track for its first milestone (3 months) this month.

3.5 The key achievements to date include:

- A continuity of the counter fraud service to SBC
- The establishment of the Development Plan
- Development of processes and Standard Operating Procedures to guide investigators' work
- The maintenance of fraud reporting mechanisms and the process of assessing referrals to the team
- The establishment of an oversight and accountability system for criminal investigations
- The acquisition of the investigatory tools and equipment necessary for investigators to be effective
- A reinvigoration of the relationships between the team and key SBC departments
- Contact and initial arrangements have been established with key partners such as Essex Police and the DWP
- A re-engagement with the National Fraud Initiative
- A review of SBC's revised Counter Fraud & Corruption, Bribery and Money Laundering Policies to reflect the new counter fraud arrangements and the team's capabilities.

3.6 Also 2 criminal trials have been supported by an officer in the team, as part of an obligation resulting from previous casework, which required attendance at the Crown Court and resulted in four convictions totalling 10 years imprisonment.

4. The threat from fraud

4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Counter Fraud Centre published its Fraud and Corruption Tracker Summary Report in November 2019.

4.2 In it, they estimate that the total value of fraud detected or prevented by local authorities in 2018/19 to be approximately £253m. This is a reduction on the previous year and is largely attributed to work done by local authorities in tackling housing fraud (mainly unlawful subletting and fraudulent Right-to-Buy applications).

4.3 The areas identified to be at the highest risk of fraud were procurement, council tax single person discount and adult social care. The primary issue identified by local authorities in combatting fraud was insufficient counter fraud capacity and resource. However there is an upward trend in the number of counter fraud specialists employed by local authorities.

4.4 The four main fraud areas by volume that local authorities are tackling are:

- Council tax: this is a high volume/low value fraud estimated to cost local authorities £30.6m in 2018/19
- Disabled parking (Blue Badge fraud): the average value of this fraud has increased from £499 to £657 in 2018/19. This has been identified as an area of increasing risk and prominence

- Housing and tenancy fraud: the detection/prevention of such frauds shows a downward trend attributed to local authorities efforts to combat it. SBC uses a value of £23k/year to value unlawful subletting (the estimated cost of temporary accommodation for a family during this time)
 - Business rates: these frauds represent a small percentage of the overall number of prevention/detections in 2018/19 while being widely cited as a high risk area.
- 4.5 Other significant areas of fraud highlighted by CIPFA are (2018/19 figures quoted):
- Adult social care (£13.7m in 2018/19)
 - Insurance (£12.6m)
 - Procurement (£20.3m)
 - No recourse to public funds/welfare assistance (not well known/reported)
 - Economic and voluntary sector support (grant frauds average £4k) and debt (£495k)
 - Payroll, recruitment, expenses and pension (£9.42m)
 - Mandate fraud and manipulation of data (356 cases reported).
- 4.6 CIPFA's recommendations include:
- Local authorities to remain vigilant in identifying and preventing fraud throughout their procurement processes
 - Fraud prevention should be embedded in 'business as usual' across the organisation
 - All staff should receive fraud awareness training
 - Local authorities should ensure that they have a strong counter fraud leadership and fraud teams should be supported in presenting business cases for adequate resources
 - Local authorities should maximise opportunities to share data including with law enforcement and third party experts
 - The importance of the fraud team's work should be built into both internal and external communication plans in line with the Fighting Fraud and Corruption Locally (FFCL) Strategy 2016-2019
 - The FFCL Strategy 2016-2019 is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.

5. Investigations

- 5.1 On the conclusion of the shared service agreement the team inherited 62 SBC-specific investigations and referrals.
- 5.2 Since the commencement of the new team 34 new referrals have been received.

5.3 Of these 96 cases:

- 45 investigations have been concluded
- 29 cases are active investigations
- 2 cases are with Legal Services for prosecution
- 3 cases are waiting for assignment to an investigator
- 17 allegations of suspected fraud are being assessed.

5.4 These investigations concern:

- 16 transport cases (Blue Badge, parking permits etc.)
- 2 schools/early years cases (fraudulent school applications etc.)
- 24 Council Tax or Business Rates cases
- 2 cybercrime cases (mandate frauds etc.)
- 3 cases referred to the DWP
- 1 grant fraud
- 33 housing cases (unlawful subletting, Right to Buy fraud etc.)
- 4 money laundering cases
- 3 procurement cases
- 6 social care cases (Direct Payment fraud etc.)
- 2 employee cases.

5.5 Also, progress has been made in responding to the workload:

- 6 intelligence reports have been disseminated (Essex Police, Castle Point Borough Council, SBC Early Years team, DWP and SBC Social Services)
- 3 information reports have been disseminated to other service areas
- 2 properties have been recovered
- 24 Data Protection Act (DPA) requests from Essex Police have been met.

5.6 The provision of an investigation report to support the Council's defence in a civil action and allegation against an employee.

5.7 The intelligence reports disseminated included referrals about child safeguarding concerns, drug use, money laundering and fraud outside of this team's jurisdiction.

5.8 The processing of DPA requests from Essex Police is part of a locally agreed arrangement which provides the team with intelligence and the capability to execute search warrants on suspect addresses if necessary.

6. The National Fraud Initiative (NFI)

- 6.1 The NFI is a central government exercise that matches electronic data within and between public sector bodies, to prevent and detect fraud. These bodies upload their data to a central service which then produces data matching reports. These matches are graded as High, Medium and Low risk with recommendations of matches to be focussed upon within these categories.
- 6.2 SBC will normally focus on processing the recommended matches on high level reports, however some individual departments will process additional matches according to the nature of the report.
- 6.3 Some of these matches indicate fraud while others can highlight errors in data that should be corrected. Where a department reviews a match and find that it indicates fraud it will be referred to the Counter Fraud & Investigation Team for investigation.
- 6.4 The Counter Fraud & Investigation Team became the key contact for the NFI in October. Work has progressed to reinvigorate the Council's engagement with the initiative. CFIT acts as a central point of contact for the NFI at SBC and coordinates the council departments' responses to NFI reports.
- 6.5 The NFI exercise in 2018/19 provided SBC with 1,438 recommended matches in 34 High Risk reports. These reports require review and action by the relevant departments. Of these matches:
- 7 High Risk reports (328 recommended matches) have been fully processed and are now complete.
 - 5 High Risk reports have been commenced but are incomplete
 - 22 High Risk reports are yet to be commenced (493 recommended matches). This is 65% of all the recommended matches provided.
 - The estimated saving to the Council from work undertaken on this exercise is currently £28,633.60.
- 6.6 The Council also review Council Tax Single Person Discount (SPD) reports from the NFI. The two reports from the 2018/19 exercise are:
- 'SPD to Electoral Roll' which has produced 1,148 matches
 - 'SPD to over 18s' which has produced 135 matches.
- 6.7 A summary of the recommended matches by report and SBC's progress in processing these matches is provided at Appendix 3.

7. Counter Fraud Work Plan

- 7.1 The Counter Fraud Work Plan (Appendix 1) has been revised to reflect the team's Development Plan (Appendix 2). This work plan supports the development of the team and details the projects that will be undertaken over the course of the year.

- 7.2 The two plans together form the strategy for developing the team's capability and effectiveness, strengthening the Council's defence against fraud and corruption and improving the detection and pursuit of offenders.

8. Corporate Implications

8.1 Contribution to the Southend 2050 Road Map

The team's work to reduce fraud, protect the council from fraud and corruption, to pursue offenders and to recoup properties and money from the convicted contribute to the delivery of all of the council's aims and objectives.

It does this by protecting and recovering the assets and funds that the council holds.

8.2 Financial Implications

Proactive fraud and corruption work, alongside the reactive prosecution of offenders, acts as a deterrent for such activities and assists in the identification of financial loss and loss of assets.

Such proactive counter fraud work can result in reduced costs to the Council by protecting it against potential loss and civil or insurance claims.

8.3 Legal implications

The Accounts and Audit Regulations 2015 section 3 states that:

"The relevant authority must ensure that it has a sound system of internal control which:

- *Facilitates the effective exercise of its functions and the achievement of its aims and objectives*
- *Ensures that the financial and operational management of the authority is effective*
- *Includes effective arrangements for the management of risk."*

The work of the Counter Fraud & Investigation Team contributes to the delivery of this.

Where fraud or corruption is proved the Council will:

- Take the appropriate action which could include disciplinary proceedings, civil action and criminal prosecution
- Seek to recover losses using criminal and civil law
- Seek compensation and costs as appropriate

8.4 People implications

Where fraud or corruption is proven the Council will:

- take the appropriate action which could include disciplinary proceedings and prosecution
- seek to recover losses using criminal and civil law
- seek compensation and costs as appropriate.

8.5 Property implications

Properties could be recovered through the investigation of housing tenancy fraud or assets recovered as the proceeds of crime. Such action will benefit the Council by returning social housing stock for the use of those in most need, recovering the assets of those who seek to profit from criminal behaviour and deterring others from considering such activity.

8.6 Consultation

Changes to the counter fraud team and the approach being taken by the new team has been discussed with key stakeholders.

8.7 Equalities and Diversity Implications

None identified.

8.8 Risk assessment

Failure to operate a strong anti-fraud and corruption culture puts the Council at risk of increased financial loss from criminal activity. Such a culture should be led and supported by the Senior Management Team.

While risk cannot be eliminated from the Council's activities, implementing counter fraud and corruption policies and culture will contribute to managing this more effectively.

8.9 Value for money

An effective Counter Fraud and Investigation Team should save the Council money by:

- Reducing the opportunities to perpetrate fraud; this is reducing potential losses to future budgets.
- Detecting fraud promptly and applying relevant sanctions where it is proved; this limits the losses to fraud and corruption.
- Pursuing perpetrators to recover losses and to seek compensation; this limits the losses to fraud and corruption.
- Recovering properties; this reduces the strain on the social housing stock and reduces the cost of temporary accommodation to future budgets.
- Limiting the cost of investigation and pursuit of offenders by the application of alternate sanctions where appropriate; this provides a cost-effective service.
- Generate an income for the Council through the provision of counter fraud awareness training to the Council's partners and service providers and the provision of an investigation/prosecution service to appropriate partners.

Appendices

- Appendix 1: Counter Fraud Work Plan 2020/21
- Appendix 2: Counter Fraud Development Plan
- Appendix 3: NFI 2018/19 matches and progress

Background papers

- CIPFA Fraud and Corruption Tracker Summary Report November 2019
- Fighting Fraud and Corruption Locally Strategy 2016-2019

This page is intentionally left blank

Southend-on-Sea Borough Council

Finance & Resources Service

Executive Director Finance & Resources : Joe Chesterton

Civic Centre, Victoria Avenue, Southend-on-Sea, Essex SS2 6ER

Counter Fraud & Investigation Team

Appendix 1 – Counter Fraud Work Plan 2019/20

Working to make
lives better
www.southend.gov.uk



Risk area	Tasks	Target date	Current status	Responsible officer	Completed date
Council wide	Establish a 'business as usual' functioning of the Counter Fraud Team as per the tasks detailed in the Development Plan up to the 3 months checkpoint.	January 2020	On target with all vital tasks either completed or in progress. Those tasks that are outstanding relate to non-vital requirements.	Shaun Dutton	In progress
Council wide	Revised policies for Counter Fraud, Bribery & Corruption and Money Laundering to be produced. Counter Fraud internal publicity campaign to be launched to coincide with the publication of the above.	January 2020	The revised policies were produced by David Kleinberg as part of the team's pre-cursor joint service arrangement. These have been reviewed and updated to reflect the current Counter Fraud arrangements. Posters for display in common staff areas have been prepared and an all-staff email is being drafted in preparation for the publication of the new policies.	Shaun Dutton	28/10/2019 In progress
Business Rates	Pro-active audit of empty commercial premises.	January 2020	Awaiting authorisation from business rates department to begin planning.	Shaun Dutton	



OFFICIAL

Risk area	Tasks	Target date	Current status	Responsible officer	Completed date
Council tax	Joint working agreement with DWP for cases involving the Council Tax Reduction scheme.	January 2020	Meeting with the DWP arranged for early January 2020	Shaun Dutton / Caroline Mercieca	
Council wide	Internal Council-wide counter fraud awareness/publicity campaign to include posters in prominent common areas and information emails.	January 2020	Posters have been designed and email information to be drafted in January.	Shaun Dutton	
Council wide	Fraud awareness training to be offered to staff, consideration to be made for material to be tailored to specific business areas, fraud awareness training to be included in new staff induction sessions.	February 2020	Planning.	Shaun Dutton	
Housing	Pro-active audit of SBC tenancies.	March 2020	Planning.	Shaun Dutton	
Housing	Postal information campaign to targeted tenancy areas to encourage reporting of concerns about fraud.	April 2020	Planning.	Shaun Dutton	
Housing	Review of SBC tenancy terms and conditions to strengthen the counter fraud message and encourage cooperation with the counter fraud team.	April 2020	Planning.	Shaun Dutton	

OFFICIAL

Risk area	Tasks	Target date	Current status	Responsible officer	Completed date
Proactive fraud drives	<p>Introduce initiatives to engage public support to counter fraud against the council focussing initially on social housing fraud and council tax fraud.</p> <p>These activities are part of the 3-6 months Development Plan.</p>	April 2020	<p>High level planning and consideration of appropriate tactics has started.</p> <p>Tactics include:</p> <ul style="list-style-type: none"> • The use of social media • Making reporting fraud easy • Targeted mail drops to high risk areas • Including counter fraud information with other SBC publicity initiatives • Targeted proactive operations • Joint working with other SBC departments and partner agencies. 	Shaun Dutton	
Council wide	<p>Raise the fraud awareness of all staff through engagement with key stakeholders and a training programme for all new starters and employees in high risk areas.</p> <p>These activities are part of the 3-6 months Development Plan.</p>	April 2020	<p>Currently in the planning stage.</p> <p>Some key stakeholders have been identified and a dialogue has been established, most notably:</p> <ul style="list-style-type: none"> • South Essex Homes has a Counter Fraud presence on their floor weekly and will receive monthly progress reports • The Council Tax department will receive monthly progress reports and a 'fast track' for dealing with CT fraud has been developed (not yet implemented). 	Shaun Dutton	

Risk area	Tasks	Target date	Current status	Responsible officer	Completed date
Counter fraud	Develop a Financial Investigator capability.	To start by April 2020	One of the team members is already on the pathway to becoming an accredited Financial Investigator. Enquiries are in progress for her to undergo the next stage of training with the NCA. We are currently awaiting course dates.	Shaun Dutton	In progress
Blue Badge	Updated training to be delivered to CEOs with updated supporting materials. Information sharing agreement with Essex Police. Joint pro-active operation with ACPOA and Essex Police Community Policing Team to target Blue Badge abuse.	June/July 2020	Planning.	Shaun Dutton	
Council wide	Complete the Development Plan up to the 9 months checkpoint	July 2020	Awaiting implementation	Shaun Dutton	
Counter fraud	Develop 'income generation' opportunities through: <ul style="list-style-type: none"> Counter fraud training initiatives for SBC partners and service providers An investigation and prosecution service to local Housing Associations 	July 2020	This is aspirational at this time and development will be dependent upon how the team progresses over the coming 6 months. Some initial discussions have been had with Estuary Housing to explore what interest there may be for such a service. This has been well received.	Shaun Dutton	In progress

Southend-on-Sea Borough Council

Finance & Resources Service

Executive Director Finance & Resources : Joe Chesterton

Civic Centre, Victoria Avenue, Southend-on-Sea, Essex SS2 6ER

Counter Fraud & Investigation Team

Working to make
lives better
www.southend.gov.uk



Appendix 2 - Development plan

Aims and targets to develop CFIT to full operational capabilities over 3, 6 and 9 months.

3 months 07/10/2019 – 07/01/2020				
Aim	Activities	Actions	Responsibility	Comments
'Business as usual' for the receipt and investigation of referrals to CFIT.	Ongoing investigation of current cases	<ul style="list-style-type: none"> Ongoing investigation of current cases 	Investigation officers	Ongoing
	Process established for the receipt and investigation of new referrals and oversight	<ul style="list-style-type: none"> Define the process for the receipt and investigation of new referrals and oversight 	SIO/Management	Completed 15/10/2019
	Enabling the tools necessary for the assessment and investigation of referrals	<ul style="list-style-type: none"> Equifax or similar Land registry NAFN PNLD Operational forms Search kits Portable printer CD/DVD reader PNBs Vehicles PoSHFA certificates CTRS certificates Property storage File storage Internet use 	SIO/Management	<ul style="list-style-type: none"> E Ongoing L Completed N Completed P Completed O Completed S Completed P Completed C Completed P Completed V Completed P Completed C Completed P In progress F In progress I Completed



@southendbc



SouthendBCOfficial



southendbc



southendbc

OFFICIAL

		<ul style="list-style-type: none"> • Lone worker alarms • Establish an archive/destruction regime • Establish a legal update information feed 		<ul style="list-style-type: none"> • L TBD • E Completed • E Completed
	Create Standard Operating Procedures	<ul style="list-style-type: none"> • Create Standard Operating Procedures 	SIO/Management	Ongoing
	Review relevant SBC policies	<ul style="list-style-type: none"> • Review relevant SBC policies and amend as necessary 	SIO/Management	Completed 28/10/2019
	Letting people know who and what we are and how to contact us	<ul style="list-style-type: none"> • Review and amend public facing web page • Review and amend intranet web page • Announcement email to all staff • Poster campaign in Civic Centre 	SIO/Management	<ul style="list-style-type: none"> • R Completed • R Ongoing • A In progress • P In progress
	Develop a case management system	<ul style="list-style-type: none"> • Create a case management file structure • Create a standard file structure • Define the process 	SIO	Completed 18/10/2019
	Begin the assessment, tasking, investigation and disposal process for all new investigations	<ul style="list-style-type: none"> • Begin the assessment, tasking, investigation and disposal process for all new investigations 	All officers	Completed 18/10/2019
	Establish a casework/caseload review regime	<ul style="list-style-type: none"> • Establish a casework/caseload review regime 	SIO	Completed
	Establish a working arrangement/agreement with key stakeholders	<ul style="list-style-type: none"> • Essex Police • DWP • SEH 	SIO and all officers DWP Meeting arranged 17/01/2020	<ul style="list-style-type: none"> • E Completed • D Ongoing • S Completed

OFFICIAL

OFFICIAL

		<ul style="list-style-type: none"> • Council Tax • Legal 		<ul style="list-style-type: none"> • C Completed • L Completed
	Establish team resources and roles according to function and workload	<ul style="list-style-type: none"> • Review workload • Projected workload • Review resources • Match resources to workload – gap analysis • Business case for updated resource requirement 	SIO and management	<ul style="list-style-type: none"> • Completed
6 months 07/01/2020 – 07/04/2020				
Aim	Activities	Actions	Responsibility	Comments
Continue 'business as usual' from above.	Continue 'business as usual' from above	Continue 'business as usual' from above	SIO and all officers	Ongoing
Increase CFIT's exposure and engagement to prevent and detect fraud.	Engage the public in counter fraud activities Initiatives to engage the public	Develop and deploy initiatives such as: <ul style="list-style-type: none"> • targeted mass postage of leaflets to SBC, • adding fraud awareness to SBC website front page, • investigate piggy backing on other SBC publicity initiatives 	SIO/Management and all officers	Planning
	Raise fraud awareness for all SBC staff Training program for all existing and new starter training	<ul style="list-style-type: none"> • Develop fraud awareness training materials for existing staff • Develop fraud awareness training materials for new starters • Liaise with HR and Training to develop a delivery regime 	SIO and all officers	Planning
	Investigate initiatives to assist the prevention and detection	<ul style="list-style-type: none"> • NFI • NAFN 	SIO and all officers	<ul style="list-style-type: none"> • Ongoing • Completed

OFFICIAL

	of crime	<ul style="list-style-type: none"> Central Government initiatives Other initiatives 		<ul style="list-style-type: none"> Planning Planning
	Review new and developing threats from fraud	<ul style="list-style-type: none"> Adapt training materials to reflect the current threats from fraudsters Establish 'all staff' information channel to highlight the continuing threat of fraud (staff email?) 	SIO and all officers	Planning
Increase CFIT's abilities to proactively detect fraud.	Proactive initiatives	<ul style="list-style-type: none"> Targeted housing operations Operations with other departments – investigate potential 	SIO	<ul style="list-style-type: none"> T Planning O enquiries ongoing
	Review the initiatives to assist the prevention and detection of crime above for potential proactive operations	Dependent on results from the above enquiries		
Ensure CFIT is fit for purpose	Review of casework / caseloads, results, volume and character of referrals	<p>Analysis of casework / caseloads, results, volume and character of referrals to determine:</p> <ul style="list-style-type: none"> Successes and failures Weaknesses in processes Key relationships are working The tools available to investigators are adequate Training needs Priorities going forward 	SIO/Management	

9 months 07/04/2020 – 07/07/2020				
Aim	Activities	Actions	Responsibility	Comments
Continue 'business as usual' from above.	Continue 'business as usual' from above	Continue 'business as usual' from above	SIO and all officers	
Improve service delivery	Act on findings of the review above	Dependent upon the findings of the review	SIO/Management	
	Staff development	Identify training and other opportunities for staff development for offer to staff	SIO/Management	
Continue CFIT's exposure and engagement to prevent and detect fraud.	Continue activities as described above	Continue activities as described above: <ul style="list-style-type: none"> • Public engagement • Staff awareness • New initiatives • 'Horizon scanning' for new threats 	SIO/Management and all officers	

This page is intentionally left blank

Southend-on-Sea Borough Council

Finance & Resources Service

Executive Director Finance & Resources : Joe Chesterton

Civic Centre, Victoria Avenue, Southend-on-Sea, Essex SS2 6ER

Counter Fraud & Investigation Team

Working to make
lives better
www.southend.gov.uk



Appendix 3 – National Fraud Initiative 2018/19 matches and progress

ReportID	SUMMARY TITLE	High Risk Matches Total	Processed All	Percentage completed (%)	Outcomes All (£)
2	Housing Benefit Claimants to Student Loans	20	17	85	10819.79
14	Housing Benefit Claimants to Payroll	4	0	0	0
14.1	Housing Benefit Claimants to Pensions	4	0	0	0
31	Housing Benefit Claimants to Housing Tenants	1	0	0	0
47.2	Housing Benefit Claimants to Taxi Drivers	3	0	0	0
49.1	Housing Benefit Claimants to DWP Deceased	34	0	0	0
65	Payroll to Payroll	1	0	0	0
66	Payroll to Payroll	10	1	10	0
68.1	Payroll to Payroll - Phone Number	1	0	0	0
111	Housing Tenants to Housing Benefit Claimants	1	0	0	0
120	Housing Tenants to DWP deceased	33	0	0	0
156	Right to Buy to Housing Benefit Claimants	3	0	0	0
170	Blue Badge Parking Permit to Blue Badge Parking Permit	4	4	100	0
172.1	Blue Badge Parking Permit to DWP Deceased	183	227	124	0
172.2	Concessionary Travel Passes to DWP Deceased	569	212	37	0
173	Private Residential Care Homes to DWP Deceased	20	45	225	0
230	Waiting List to Housing Tenants	15	0	0	0
231	Waiting List to Housing Tenants	12	1	8	0
240	Waiting List to Housing Benefit Claimants	17	0	0	0
241	Waiting List to Housing Benefit Claimants	6	1	16.5	0



ReportID	SUMMARY TITLE	High Risk Matches Total	Processed All	Percentage completed (%)	Outcomes All (£)
257	Waiting List to Waiting List	30	0	0	0
261	Waiting List to DWP Deceased	1	1	100	0
400.1	Personal Budgets to DWP Deceased	2	2	100	0
436.1	Council Tax Reduction Scheme to Pensions	12	0	0	0
449	Council Tax Reduction Scheme to Housing Tenants	1	0	0	0
450	Council Tax Reduction Scheme to Housing Tenants	2	0	0	0
468	Housing Tenants to Council Tax Reduction Scheme	2	0	0	0
477	Council Tax Reduction Scheme to Housing Benefit Claimants	1	0	0	0
482	Council Tax Reduction Scheme to DWP deceased	28	0	0	0
707	Duplicate records by reference, amount and creditor reference	58	271	467	0
708	Duplicate records by amount and creditor reference	296	0	0	0
709	VAT overpaid	60	67	111	0
713	Duplicate records by postcode, invoice amount but different creditor reference and invoice number and date	2	10	500	0
1536	Housing Tenants to State Benefits	2	0	0	0
		1438			10819.79

Southend-on-Sea Borough Council

Report of the Executive Director (Finance and Resources)

to

Audit Committee

on

15 January 2020

Agenda
Item No.
7

Report prepared by: Andrew Barnes, Head of Internal Audit

Internal Audit Services, Quarterly Performance Report

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the progress made in delivering the Internal Audit Strategy for 2019/20.

2. Recommendations

- 2.1 **The Audit Committee notes the progress made in delivering the 2019/20 Internal Audit Strategy.**

3. Internal Audit Plan Status

- 3.1 **Appendix 1** sets out the current status of the audit work planned for the year as at 3 January 2020. This highlights where audits contained in the original plan considered by the Audit Committee in March 2019 have changed and why.
- 3.2 **Appendix 2** sets out the results of the work completed since the last progress report to the Audit Committee in October.
- 3.3 In addition to the originally planned audit work, the team has been assisting the Council with the work being undertaken to deliver Transforming Together, providing challenge and advice to the teams working on delivering the outcomes required for the Council to change. Different members of the audit team have been involved in different aspects of this work, each helping to shape the direction of travel being pursued by the Council.
- 3.4 The team has taken over responsibility for the Council's corporate approach to risk management that has involved updates to the Risk Management Policy Statement and Strategy, work to deliver the planned changes to the approach arising from that and maintenance of the corporate risk register.
- 3.5 The team has also been providing challenge, advice and support on a number of other issues, initiatives and projects that the Council is undertaking and dealing with, as outlined in Appendix 1 under "Advice and Support".

4. Performance Targets and Resourcing

- 4.1 As outlined in the Strategy presented to the March 2019 Audit Committee, the team will be reporting on a limited set of indicators this year given the amount of work that is still being contracted out.
- 4.2 So as at 3 January 2020:
- the team has had 4.5 days of sickness absence since April 2019 (which impacts on productivity) and equates to 0.74 days per FTE
 - in terms of the jobs in the plan:
 - 17% of audits are finalised
 - 17% of audits have work complete with reports being produced or discussed
 - 17% of audits are in progress
 - 12% of audits have terms of reference produced
 - 33% of audits are resourced and booked, but yet to be started
 - 4% of audits require scope to be reassessed.
- 4.3 Stakeholder surveys are completed throughout the year as audits are completed. **Appendix 3** reflects the results of the 7 surveys covering 7 audits undertaken since April 2019. The feedback in this period is very strong showing that stakeholders find the service to be knowledgeable, flexible, communicative, collaborative and of value to the organisation. The results also show that there is some scope for improvement around articulating our understanding of information provided by services and issues surrounding it, keeping services updated with progress and being fully consistent between our discussed findings and reported findings.
- 4.4 The shared team with Castle Point has a resource structure consisting of:
- two Audit Managers (both in post)
 - two Senior Auditors (one post vacant)
 - four Auditors (two posts vacant)
 - cash (from the vacant posts) to buy in specialist and other services on behalf of both sites.
- 4.5 That leaves the shared team with three vacancies. The salaries of the vacant posts are currently being used to fund audit resource brought in from suitable accountancy firms to assist with delivery of the audit plan.
- 4.6 The expected requirements of the internal audit service into the future continue to evolve and this is being assessed to determine the most appropriate team model utilising the financial resources available. Work is also ongoing integrating two recently recruited members of staff into the team. Once the current team resourcing and integration activities are complete, this will then be implemented to result in an appropriate mix of experienced staff, trainees who will be put through a relevant training programme and externally sourced skills. This will enable the team to deliver the internal audit service required by the organisations that it serves.

- 4.7 Since the last report to the Audit Committee in October 2019 the Head of Internal Audit has also been assisting with the re-integration of the counter fraud team to become an in-house service.

5. Reasons for Recommendations

- 5.1 Internal audit are an assurance function providing assurance to assist the Audit Committee to effectively discharge its responsibilities as per its Terms of Reference. The delivery of the internal audit plan will assist the Audit Committee with obtaining assurance that the Annual Governance Statement appropriately reflects the conditions at the Council.**

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.

6.2 Financial Implications

The Audit Plan will be delivered within the approved budget.

Any financial implications arising from identifying and managing fraud risk will be considered through the normal financial management processes.

6.3 Legal Implications

The UK Public Sector Internal Audit Standards require the Audit Committee to approve (but not direct) the annual Internal Audit Plan and then receive regular updates on its delivery. This report contributes to discharging this duty.

6.4 People Implications

People issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

6.5 Property implications

Property issues that are relevant to an audit within the Audit Plan will be considered as part of the review.

6.6 Consultation

The audit risk assessment and the Audit Plan are periodically discussed with the Chief Executive, Deputy Chief Executives and Directors before being reported to Corporate Management Team and the Audit Committee.

All terms of reference and draft reports are discussed with the relevant Deputy Chief Executives and Directors before being finalised.

6.7 Equalities and Diversity Implications

The relevance of equality and diversity is considered during the initial planning stage of the each audit before the Terms of Reference are agreed.

6.8 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

The main risks the team continues to manage are the:

- potential loss of in-house staff and the ability of the service to replace this resource in a timely manner
- lack of management capacity to support and develop the team, while processing work in a timely manner and providing strategic leadership to the team and support to the Council
- possibility that the external supplier won't deliver contracted in work within the required deadlines to the expected quality standards
- need to maintain relationships with clients / partners while the service is being rebuilt.

6.9 Value for Money

Opportunities to improve value for money in the delivery of services are identified during some reviews and recommendations made as appropriate.

Internal Audit also periodically considers whether it provides a value for money service.

6.10 Community Safety Implications

These issues are only considered if relevant to a specific audit review.

6.11 Environmental Impact

These issues are only considered if relevant to a specific audit review.

7. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

8. Appendices

Appendix 1 Internal Audit Plan 2019/20

Appendix 2 Audit Assurance and Themes

a Follow ups

b Partial assurance

Appendix 3 Stakeholder survey results

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
Managing the Business			
All Outcomes			
All	Risk Management Strategy To lead on the Council's work to embed a robust and efficient risk management framework into its wider governance arrangements.	No	Risk Management Policy Statement and Strategy agreed by Cabinet September 2019. Agreed Implementation Action Plan to test and roll out the new approach between October 2019 to May 2020.
PL (ST)	IT Risk Assessment To undertake a baseline assessment of IT risks against a standard good practice framework and use this to develop the IT element of the Audit Plan going forward.	No	To be reconsidered as part of the audit planning process for 2020/21 to take account of the new service delivery arrangements currently being implemented.
Implementing Action Plans			
F&R (JC)	Shareholder Board To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	Planned for January to March 2020.
L&D (JW)	Emergency Planning To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	Terms of reference being prepared.
L&D (JW)	Business Continuity To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
T (JR)	Information Governance, General Data Protection Regulations To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	No	Terms of reference being prepared.
Managing Service Delivery Risks			
Pride and Joy By 2050 Southenders are fiercely proud of and go out of their way to champion what our city has to offer.			
PL (NH)	Local Transport Capital Block Funding - Flood Resilience To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
PL (NH)	National Productivity Investment Fund – Town Centre Redevelopment Improvement Project To certify, in all significant respects, that the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
Implementing Action Plans			
No work required			
Safe and Well By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives			
PE (BM)	Children Centres Contract Management (2018/19) To assess whether the contract is being effectively managed to ensure the planned outcomes for children and families are being delivered in compliance with the specified performance and/or quality standards, at the correct price.	No	Completed July 2019.

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
PE (GH)	Homelessness and Rough Sleeping To assess the robustness of arrangements for quickly and effectively supporting people facing homelessness to prevent this from happening and where it does that this is brief and non-recurrent.	Yes	Draft report being prepared.
PE (JOL)	Independent Reviewing Officers To assess the effectiveness of Independent Reviewing Officers in ensuring children's needs are met and their outcomes improved through the support and services that they receive, enabling them to reach their potential.	No	Draft report being prepared.
PE (JL)	Commissioning of a New Service To assess whether commissioning decisions were evidence based through clear and concise commissioning proposals, in order to meet the needs and outcomes required.	Yes	Initial planning and scoping of the work completed. Resource being agreed.
PE (JL)	Outcome Realisation of a Commissioned Service To assess whether the delivery of a commissioned service is being effectively managed to ensure the planned outcomes and / or benefits for residents anticipated by the commissioning process are delivered.	Yes	Initial planning and scoping of the work completed. Resource being agreed.
PE (GH)	Private Sector Housing To assess the effectiveness of the Private Sector Housing offer in regeneration of the housing market to ensure inclusive, healthy and safe places to live.	Yes	Planned January to March 2020.

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
PE (JOL)	<p>In House Foster Carers</p> <p>To assess the effectiveness of the 'Fostering Team Action Plan' in ensuring appropriate processes are developed to allow for statutory requirements to be met and good practice followed, supporting safe and high quality placements for children.</p> <p>(Please note the focus of the audit has changed as a result of the action plan developed after the 'Diagnostic and review of fostering services' undertaken as part of the Partner's in Practice arrangements).</p>	Yes	Terms of reference being agreed with the service.
PL (CR)	<p>Environmental Health</p> <p>To assess whether there are robust arrangements in place to ensure concerns and referrals received are properly and effectively dealt with and statutory responsibilities discharged to protect and improve the wellbeing of residents.</p>		Work in progress.
PE (SB)	<p>Deprivation of Liberty Safeguards (DoLS)</p> <p>To assess the robustness of arrangements which ensure when a person is deprived of liberty, is necessary and in their best interests.</p>		<p>Removed from the 2019/20 Audit Plan as initial audit enquiries identified that work is underway to fundamentally change the arrangements for how DoLS are managed.</p> <p>The audit has been added to the Risk Watch List for potential inclusion in the 2020/2021 Audit Plan.</p>
PE (SB)	<p>Adult Social Care Financial Assessments</p> <p>To assess the robustness of the process that determines eligibility for financial support towards care needs to ensure it is accurate, transparent and accessible.</p>	Yes	Draft report being prepared.
PE (MB / JOL)	<p>Data Quality – Children's Services</p> <p>To assess the robustness of arrangements to confirm that data entered into the care management system (LCS) by social care staff, which is then used to produce performance indicators for senior management, is reliable.</p>	No	Draft report being prepared.

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
PL (PG)	Building a Safer Future To assess the Building Control team's preparedness for implementing the changes to Building Regulations and Fire Safety emanating from the Hackitt Enquiry published in December 2018.	No	Removed from the 2019/20 Audit Plan as the required changes emanating from the Hackitt Enquiry have not been confirmed by government.
PE (JOL)	Early Help and Family Support Quality Assurance Framework To assess the effectiveness of the Assurance Framework in supporting the Edge of Care Team to ensure that the right decisions are made to meet children's needs and keep them safe.	No	Discussing audit focus with the Director of Children Services as a result of imminent changes planned to the service's Quality Assurance Framework.
PE (GH)	Disabled Facilities Grant To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
PE (JOL)	Troubled Families To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Report on the July to September 2019 submissions completed September 2019. Report being prepared on the October to December 2019 submissions.
Implementing Action Plans			
PL (PG)	Building Control To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	Completed December 2019.
PE (JOL)	Management Response to Quality Assurance Audits (2018-19) To assess whether the actions agreed in the original audit dated July 2018 have been implemented and are now effectively embedded into the day-to-day operation of the service.	No	Completed October 2019.

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
PE (JOL)	Social Care Payments to Individuals and Providers – Children (2018-19) To assess the robustness of the arrangements identified in the previous memo issued in June 2018, in ensuring that accurate and timely social care payments are made to individuals and providers.	Yes	Completed October 2019.
Active and Involved By 2050 we have a thriving, active and involved community that feel invested in our city			
Implementing Action Plans			
PL (PG)	South Essex Active Travel (SEAT) Governance Arrangements To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	Draft report being prepared.
Opportunity and Prosperity By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people			
T (JR)	Hayes Contract Management To assess whether there are robust arrangements in place to ensure that the contract is delivering the planned outcomes and / or benefits in compliance with the specified performance and quality standards, at the correct cost.	Yes	Terms of reference being drawn up.
PL (PG)	Parking Enforcement Income Collection To assess the effectiveness of arrangements for the timely collection of this income in line with the expectations set out in the Corporate Debt Policy (November 2017).	Yes	Planned January to March 2020.
PL (PG)	Rechargeable Works To assess the effectiveness of arrangements for recharging third parties for the cost of making good accidental damage to Council assets.	Yes	Work in progress.

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
Implementing Action Plans			
No work required			

Connected and Smart By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure			
---	--	--	--

PL (ST)	IT Audit – Focus TBD The focus of these audits will be determined following the IT Risk Assessment work (see Managing the Business above).	Yes	Timings to be determined after the IT Risk Assessment work above (Managing the Business).
PL (ST)	IT Audit – Focus TBD The focus of these audits will be determined following the IT Risk Assessment work (see Managing the Business above).	Yes	Focus to be agreed with the Executive Director (Transformation) taking into account the new service delivery arrangements currently being implemented.
PL (PG)	Local Transport Capital Block Funding - Highways Maintenance To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Completed September 2019.
PL (PG)	Pothole Action Fund To certify that, in all significant respects, the conditions attached to the grant have been complied with.	Yes	Completed September 2019.

Implementing Action Plans			
No work required			

Key Financial Systems			
------------------------------	--	--	--

All Outcomes			
---------------------	--	--	--

T (JR)	Payroll (2018/19) To assess the robustness of arrangements which ensure staff are paid the right amount at the right time in line with Council policies and legislative requirements.	Yes	Completed August 2019.
--------	---	-----	-------------------------------

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
F&R (JC)	Housing Benefits To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that information from the system can be relied upon when producing the Council's statement of accounts.	Yes	Work in progress.
F&R (JC)	Council Tax To assess whether the key controls effectively prevent or detect material financial errors, on a timely basis, so that information from the system can be relied upon when producing the Council's statement of accounts.	Yes	Work in progress.
F&R (JC)	Accounts Payable – Batch Input Files (BIF) To assess the robustness of arrangements to ensure that these payment files are accurate and secure.	Yes	Planned for January to March 2020.
F&R (JC)	Income Management System To assess the robustness of the new system to ensure that all income is accounted for in an accurate, secure and timely manner.	Yes	Initial planning and scoping work underway.
PE (SB)	Social Care Debt Collection To assess the effectiveness of arrangements for the timely collection of this income in line with the expectations set out in the Corporate Debt Policy (November 2017).	Yes	Draft report being prepared.
Implementing Action Plans			
T (JR)	Payroll To check that actions agreed have been effectively implemented and are now embedded into the day to day operation of the service.	Yes	New addition to the Audit Plan from the Risk Watch list (see Appendix 2a) as in house resource increased. Planned January to March 2020.

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
Advice and Support			
All Outcomes			
PL (AL)	Cyber Security To provide support and challenge over the robustness of the arrangements for implementing the improvement actions identified by the Local Government Association's 'stock take' of resilience arrangements against cyber-attacks.	Yes	Timing being aligned to the council's internal reporting arrangements for updates arising from the LGA 'stock take'. Progress is being reported to the Good Governance Group on a regular basis.
All	Transforming Together & Southend 2050 To provide support and challenge to the organisation as these continue to develop.	No	The Head of Internal Audit has been supporting the work of the Transforming Together Team this quarter as work on 'simple and effective governance' develops.
All	Information Asset Register Group To provide support and challenge to the group as the Information Asset Register continues to develop.	No	No work this quarter.
GGG ¹	Subject Access Requests Children's Services To provide support and challenge around the robustness of arrangements for responding to these requests in the required time frames. (Working with the Transformation Service's Service Design Team)	No	Extent of the work and resourcing required being determined in conjunction the Corporate Strategy Team.
Pride and Joy By 2050 Southenders are fiercely proud of, and go out of their way, to champion what our city has to offer.			
No work planned.			

¹ Good Governance Group

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
<p align="center">Safe and Well</p> <p align="center">By 2050 people in Southend-on-Sea feel safe in all aspects of their lives and are well enough to live fulfilling lives</p>			
PL (AL)	<p>Fire Safety</p> <p>To provide support and challenge to the working group to ensure that fire safety arrangements are appropriate and effectively managed to make buildings safe and feel safe, now and in the future.</p>	Yes	Work in progress.
<p align="center">Active and Involved</p> <p align="center">By 2050 we have a thriving, active and involved community that feel invested in our city</p>			
No work planned.			
<p align="center">Opportunity and Prosperity</p> <p align="center">By 2050 Southend-on-Sea is a successful city and we share our prosperity amongst all of our people</p>			
PL (EC)	<p>Better Queensway Joint Venture</p> <p>To provide support and challenge as the organisation develops and implements governance arrangements to monitor the delivery of the programme through the Joint Venture Limited Liability Partnership.</p>	Yes	<p>Support being provided to the Project team and the Council's Partnership Board to assess, capture and manage risk.</p> <p>Further work planned with the Board for January 2020.</p>
All	<p>Corporate Establishment</p> <p>To provide support and challenge over the development of a corporate establishment, with the purpose of ensuring a complete and accurate personnel establishment list within Agresso and realisation of associated benefits.</p>	Yes	Timing to be determined once the project timeline has been agreed.
PE / F&R (BM / JC)	<p>Use of the Basic Need Capital Grant for Schools</p> <p>To support the Council in determining its role and responsibilities in ensuring value for money for the provision of increased pupil places.</p>	Yes	Completed April 2019.

Appendix 1: Internal Audit Plan 2019/20

Dept & (Lead)	Service Activity	Fraud risk	Status at 3 January 2020
<p align="center">Connected and Smart</p> <p align="center">By 2050 people can easily get in, out and around our borough and we have a world class digital infrastructure</p>			
PL (PG)	<p>Highways Improvement Plan</p> <p>To provide support and challenge over the robustness of the arrangements for implementing the agreed improvement actions and for measuring the positive impact of the actions.</p>	No	<p>Feedback provided covering the clarity of ownership and agreed target dates for actions detailed in the Improvement Plan.</p> <p>Recently appointed Executive Director Neighbourhoods and Environment is reviewing current plan to address the above, as well as ensuring clarity of actions and outcomes.</p> <p>Arrangements for monitoring delivery of the Improvement Plan will be considered for potential inclusion in the 2020/2021 Audit Plan.</p> <p>Completed November 2019.</p>
<p align="center">Managing Service Delivery</p>			
<p>Delivering the internal audit service involves:</p> <ul style="list-style-type: none"> • audit planning and resourcing • managing Audit Plan delivery which includes overseeing contractor work • reporting to senior management and the Audit Committee. 			
<p>Implementing the outstanding actions arising from the external quality assessment undertaken by the Institute of Internal Auditors undertaken in October 2017.</p>			

Appendix 2a: Internal Audit Plan 2019/20

Risk Watch List	
PE	The effectiveness of the Children's Services Quality Assurance and Practice Framework
PE	Adherence to terms and conditions of the Early Years grant funding (advice and support 2019/20)
PE	Delivery of outcomes from the block contract with Southend Care
PE	Monitoring the delivery of outcomes for older people placed in residential care
PE	Implementation of the Special Education Needs Inspection Action Plan
PE	Essex Partnership University NHS Foundation Trust S75 Agreement
F&R	Counter Fraud and Investigations delivery against the Service Level Agreement with Thurrock Council (New alternative arrangements now being implemented)
PL	Management of the ICT Liquid Logic and / or Logicalis contract
PE	Delivery of outcomes from the Locality delivery model in Adult Social Care
PL	Environmental Health (Now added to the 2019/20 Audit Plan)
T	Payroll revisited (Now added to the 2019/20 Audit Plan)
PE	Vibrance contract management revisited
T	Governance architecture for service delivery
F&R	Implementation of the automated P2P new supplier process (advice and support 2019/20)
PE	Deprivation of Liberty Safeguards (DoLS)
PL	Building a Safer Future

These are other potential audits that may be considered for inclusion in the Audit Plan during the year should resources permit.

Appendix 2a: Internal Audit Plan 2019/20

Audit Activities	Resource allocation
Managing the Business	3%
Managing Service Delivery Risks	42%
Key Financial Systems	13%
Grant Claims	6%
Advice and Support	7%
Follow Ups	8%
Contingency	11%
Managing Delivery of the Audit Plan	10%
Total	100%
Total Council Audit Plan Days	583

The days required to revisit and retest action plans from previous reports are included under each heading.

The Total Council Audit Plan Days reflects the higher cost of buying in external contractors to cover internal vacancies.

Analysis Over Departments		
All	Cross Cutting	4%
F&R	Finance and Resources Service	11%
L&D	Legal and Democratic Services	3%
T	Transformation Service	4%
PE	People	32%
PL	Place	25%
All	Contingency	11%
All	Managing Delivery of the Audit Plan	10%
	Total	100%

This page is intentionally left blank

Appendix 2a: Audits Revisited

Purpose of these Audits

To assess whether the actions agreed in the original audits have been implemented and are now effectively embedded into the day-to-day operation of the service.

Social Care Payments to Individuals and Providers - Children

The original report arising from this work was a management memo not an audit report, due to the status of the Liquid Logic case management system at the time of undertaking the work.

Original Objective

To assess whether the control framework being designed into the new Liquid Logic case management system and the ContrOCC finance module is robust enough to ensure that accurate and timely social care payments are made to individuals and providers.

Summary

Work is underway to move the final payment streams being made via the Children's Payment Database onto the Liquid Logic (LCS) and ContrOCC¹ systems where segregation of duties between requests, authorisation and payment can be enforced. Interim arrangements are being introduced to ensure the ongoing accuracy of payments generated via the Children's Payment Database, including increased review of:

- proposed payments within the Department for People's Finance Team
- actual payments made compared to original requests by the social care service areas.

Increased review of payments is also being introduced by the Foster Care team to confirm the ongoing accuracy of foster care fees which are actioned directly via the finance module (ContrOCC) by the Department for People's Finance Team. Again, the longer term solution, which is also part of the wider piece of work identified above, is to have the end to end process on LCS and ContrOCC, to match the arrangements in place for paying foster care allowances and expenses. As such, the process will automate the workflow for approval and reduce manual intervention.

A regular review of system permissions is to be introduced to ensure access to LCS and ContrOCC by individual officers:

- remains appropriate to current roles
- is restricted to only one system wherever possible (the exception being read only access). Where this is not possible, appropriate monitoring of permission use is to be introduced
- does not allow for one individual to perform any process end-to-end e.g. on ContrOCC, authorise payments and undertake Manual Adjustments.

The process for setting up financial approval limits on LCS and ContrOCC is well designed and aligns to the Council's Scheme of Delegation and the approach used for the Council's key financial system Business World. A report is being designed to

¹ Finance module that interfaces with LCS to facilitate payments

Appendix 2a: Audits Revisited

notify all movers / leavers actioned through MyICT requests to the Department for People's Finance Team to ensure approval limits can be updated / removed as required.

Not all items requiring financial approval are automatically routed on LCS to the appropriate budget holder, instead being routed to the line manager. This is a known glitch of the LCS system and line managers are expected to identify and re-route financial approvals beyond their corporate delegated approval limits to the budget holder. A report has been developed to identify those that have not been re-routed and resulted in line managers authorising beyond their designated approval limits. Regular review of this by the Heads of Service and the Director of Children's Services will allow for any inappropriate authorisations to be identified and addressed as necessary.

Building Control

Original Objective

To assess the robustness of arrangements to ensure a consistent, effective and commercial Building Control service is delivered to the residents of Southend in accordance with statutory requirements.

Results

Fully implemented	Substantially implemented	Partially implemented	Not implemented	Closed
1	6	1	1	0

Audit Committee Summary

A strategy which outlines how the service will reach a break even position by 2020 has not been developed. However, this is due to the market changing, with a competitor in the private sector unable to secure a renewal of their insurance which has led to them being unable to continue within the sector. This has led to a large amount of work reverting back to the Council which has increased their market share by default. Other competitors are due to renew their insurance and this may lead to further withdrawals from the market and increased market share for the Council. Prior to the influx of additional work, plans were in place to attend a Local Authority Building Control (LABC) course on how to better market the service. However, dealing with the influx of new work was prioritised over the development of a strategy.

Appendix 2a: Audits Revisited

A training log has been developed by the Building Control Team Leader which details the time spent on each training module / course. While it was noted that the log is largely a record of Continued Professional Development (CPD) of staff, mandatory training courses are also included. It would be beneficial to include further details within the log such as refresher dates in order to help ensure staff training remains up to date.

A spreadsheet has been developed to record the various spot checks conducted by the Building Control Team Leader. Spot checks on charges applied and site visit notes are conducted quarterly with two cases selected from each month. Results are recorded on the spreadsheet and any issues arising fed back to staff, therefore helping to mitigate the risk that issues persist. In addition, a spot check of larger jobs has been implemented as of July 2019 with a sample of larger jobs selected from the monthly completion report, with these checks recorded on the spot check spreadsheet.

The Council's website has been updated to include the fees and charges applicable for the 2019/20 financial year, which is clearly labelled and therefore reduces the risk of customer confusion.

A procedure log has been developed which includes the issue date of each procedure and the review date, helping the Council to mitigate the risk that reviews are not undertaken in a timely manner.

Performance targets have been identified from the Quality Management System (QMS) ISO 9001. Although the Council has not yet reported on any of these performance indicators, they intend to in the near future.

A conflicts of interest section has been added to the standard forms used by Building Control. However, this had only just been implemented in the week of the re-visit audit and therefore assurance that the section is being consistently completed was limited.

This page is intentionally left blank

Appendix 2b: Audit Assurances and Themes

Assurance



Shareholder Board

Objective

To assess the robustness of the new governance arrangements established to oversee the financial and operational performance of the Council owned companies that are being used as an alternative method to deliver outcomes for residents.

Summary

Shareholder Board Terms of Reference

The Shareholder Board was approved by the Council in December 2017 along with their Terms of Reference (ToR). The ToR set the broad objectives for the Shareholder Board but did not give sufficient information on the function of the Board and the level of information that it needs to consider. This made it more difficult for the Board to properly exercise their role and responsibilities, and less able to challenge the companies on their governance and performance. Since the audit work was undertaken the ToR have been updated to more clearly specify what the Board is there to achieve and the information that should be provided to it, in order that it can do so.

Shareholder Board's remit

Originally the Shareholder Board considered two companies, South Essex Homes (SEH) and Southend Care. Since the audit work was undertaken the remit has been updated to refer to all 'Corporate Vehicles', therefore now includes the Council's joint ventures, Porters Place Southend-on-Sea LLP, PSP Southend LLP and Southend-on-Sea Forum Ltd.

Conflict of Interest

Originally there were eight members appointed to the Shareholder Board of which four were from the cabinet and two were also members of the audit committee. The chair was a council representative on the board of PSP Southend LLP and another member was on the board of SEH.

In order to challenge the companies and the joint ventures, it is important that none of the Board members have any conflict of interest arising from their involvement with the companies.

Since the audit work was undertaken the ToR have been updated to reflect that 'No Councillor who sits on the board of a Corporate Vehicle can attend a Shareholder Board meeting considering that particular Corporate Vehicle.'

Appendix 2b: Audit Assurances and Themes

Assurance



Consistency with the Audit Committee's ToR

There is a need for the Audit Committee's ToR to be updated to reflect its relationship with the Shareholder Board and their respective roles and responsibilities.

Number of actions agreed: 8

Appendix 3: Stakeholder Surveys, Compliance with Professional Standards

Setting up and planning the audit (PSIAS 1200 / 2200)		%
1	Did we show a good level of knowledge and understanding of your service when discussing the potential scope and objective to be covered by the audit before fieldwork took place?	100
Performing the audit (PSIAS 2300)		
2	Did we work effectively with you when doing the audit to minimise the impact on your service?	100
3	Were we able to talk knowledgeably with you about information provided to us and queries we had during the audit?	93
Communicating results (PSIAS 2400) and Improving governance, risk management and control processes (PSIAS 2100)		
4	Did we keep you informed of the progress of the audit and issues arising from the work in timely manner?	92
5	Did we effectively explain to you where we felt action was required to improve your arrangements and why?	100
6	Was the report fair and reflective of the work done by audit and the issues found as discussed with you?	93
Independence and Objectivity (PSIAS 1100)		
7	Did we provide relevant evidence to back up our findings if required?	100
8	At the end of the audit, did you understand the rationale for the overall opinion given?	100
Managing the Internal Audit Activity (PSIAS 2000)		
9	Do you think internal audit adds value to the Council?	100

This page is intentionally left blank

Southend-on-Sea Borough Council

Report of the Executive Director (Finance and Resources)

to

Audit Committee

on

15 January 2020

Agenda
Item No.

8

Report prepared by: Andrew Barnes, Head of Internal Audit

Audit Committee assessment and development update

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To update the Audit Committee on the assessment and development plans in respect of the Audit Committee.

2. Recommendations

- 2.1 **The Audit Committee members complete the skills stocktake form emailed to them on 20 December and reserve the date of the Audit Committee training session that will take place at 18.30 on 23 March 2020.**

3. Audit Committee assessment

- 3.1 CIPFA's 'Audit Committees: Practical Guidance for Local Authorities and Police' (2018) outlines that it is good practice for the Audit Committee to periodically assess its effectiveness and then take steps to deliver improvement. Part of this is ensuring that the Committee has the appropriate knowledge and experience, skills and competencies to deliver its responsibilities effectively.
- 3.2 For that reason we are undertaking the skills and knowledge stocktake, so that we can gauge the position of the current Audit Committee and where additional support may be required.
- 3.2 **Appendix 1** sets out skills stocktake that has been distributed to all Members and substitutes for completion, the results of which will be used to help inform the training to be provided on 23 March.

5. Reasons for Recommendations

- 5.1 **The purpose of the Audit Committee is to provide independent assurance on the adequacy of the risk management framework, the internal control environment, oversee the integrity of the financial reporting and annual governance processes and to oversee internal and external audit. Therefore it needs a combined membership that is appropriately skilled to deliver this purpose.**

6. Corporate Implications

6.1 Contribution to the Southend 2050 Road Map

Audit work provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes and the Audit Committee have a role to play to obtain assurance about the effectiveness of that audit work.

6.2 Financial Implications

An effective Audit Committee contributes to the assurance provided to the Council about the effectiveness of financial arrangements.

6.3 Legal Implications

The Accounts and Audit Regulations 2015 require the Council to operate an internal audit function and the Audit Committee have a role to play to obtain assurance about the effectiveness of that audit work.

6.4 People Implications

None identified.

6.5 Property implications

None identified.

6.6 Consultation

The approach to undertaking the skills stocktake and the form itself was agreed with Chair of the Audit Committee and the Executive Director (Finance and Resources).

6.7 Equalities and Diversity Implications

None identified.

6.8 Risk Assessment

Failure to operate a robust assurance process (which incorporates the internal audit function) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its corporate aims and priorities.

6.9 Value for Money

None identified.

6.10 Community Safety Implications

None identified.

6.11 Environmental Impact

None identified.

7. Background Papers

- The Accounts and Audit Regulations 2015
- UK Public Sector Internal Audit Standards
- CIPFA: Local Government Application Note for the UK Public Sector Internal Audit Standards

8. Appendices

Appendix 1 Audit Committee skills stocktake form

This page is intentionally left blank

Audit Committee Skills Stocktake 2019

For Audit Committee members and their substitutes

Why this is important

The CIPFA guidance for Audit Committees says that committees should identify the skills they need having regard to CIPFA's Audit Committees: Practical Guidance for Local Authorities and Police (2018) that sets out the knowledge, skills and behaviours required for effective governance. This skills stocktake is a useful way of assessing the needs of the Audit Committee to inform appointment, succession planning and the training that Committee Members require.

Format and structure of the skills stocktake

This skills stocktake is based on the features of effective governance that are referred to CIPFA's guidance and additional skills and competences required that enable a positive contribution to the committee. It does not attempt to replicate all potential competencies that could be relevant.

The skills stocktake is based on the principle that Audit Committees are best placed themselves to individually assess which areas outlined in the framework are most important for them. Therefore it combines the core aspects of the guidance with the experience and feedback of senior members and officers to inform the skills, experiences and knowledge included.

The skills stocktake does not ask potential or serving committee members to rate their commitment to the Council, its ethos, vision and to improving the circumstances and welfare for all citizens and stakeholders. Nor does it ask them to evaluate their willingness to devote time and enthusiasm to the role. It is assumed that this has been established from the outset.

How to use it

Each area should be rated on a scale of 1-5, with 1 indicating no experience or knowledge in this area, and 5 indicating strong expertise.

The skills and knowledge sought are those that enable committee members and their substitutes to ask the right questions, analyse data and have focussed discussions, which create robust accountability for Council leaders.

No individual is going to have all the skills listed in the assessment. The Audit Committee is a team, and the purpose of the stocktake is to determine whether each skill below is covered by at least one of the Committee members around the table. Where this stocktake identifies that there are gaps in the skills and knowledge of the Committee as a team, we will be seeking to fill that gap through training and other support – so please answer honestly! The answers provided will be aggregated for the team and no individual responses will be shared.

Once you have completed the form please return to me at: andrewbarnes@southend.gov.uk

Audit Committee members Knowledge, experience, skills and behaviours	Level of knowledge or skills/behaviour, rate on scale of:				
	Low	→	→	→	High
	1	2	3	4	5
1. Organisational knowledge					
An overview of the governance structures of the Council and decision-making processes					
Knowledge of the Council's 2050 Ambition and 2023 Roadmap objectives					
Knowledge of the major functions of the Council					
2. Audit Committee roles and functions					
An understanding of the Audit Committee's role and place within the governance structures					
Knowledge of the purpose and role of the Audit Committee within the Council's constitution					
Familiarity with the Audit Committee's terms of reference and accountability arrangements					
3. Governance and values of good governance					
Knowledge of the seven principles of the CIPFA / Solace Framework and the requirements of the Annual Governance Statement					
Knowledge of the local code of governance					
Knowledge of the Seven Principles of Public Life					
Knowledge of the authority's key arrangements to uphold ethical standards for both members and staff					
Knowledge of the whistleblowing arrangements in the authority					
4. Internal Audit					
An awareness of the key principles of the Public Sector Internal Audit Standards and the Local Government Application Note					
Knowledge of the arrangements for delivery of the internal audit service in the Council and how the role of the Head of Internal Audit is fulfilled					
5. Financial management and accounting					
Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them					
Understanding of good financial management principles					
Knowledge of how the organisation meets the requirements of the role of the Chief Financial Officer, as required by The Role of the Chief Financial Officer in Local Government (CIPFA, 2016)					
6. External Audit					
Knowledge of the role and functions of the external auditor and who currently undertakes this role					
Knowledge of the key reports and assurances that external audit will provide					
Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken					

7. Risk Management					
Understanding of the principles of risk management, including linkage to good governance and decision making					
Knowledge of the risk management policy and strategy of the organisation					
Understanding of risk governance arrangements, including the role of members and of the audit committee					
8. Counter fraud					
An understanding of the main areas of fraud and corruption risk to which the Council is exposed					
Knowledge of the principles of good fraud risk management practice in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)					
Knowledge of the organisation's arrangements for tackling fraud					
9. Treasury management					
Knowledge of treasury management regulatory requirements					
Knowledge of treasury management risks					
Knowledge of the organisation's treasury management strategy					
Knowledge of the organisation's policies and procedures in relation to treasury management					
10. Strategic Leadership					
Experience of being a Committee member / governor / trustee in another organisation or being a board member in another sector					
Experience of chairing a board / governing board or committee					
Awareness of the key aspects of national policy impacting on local government e.g. funding, responsibilities, functions					
Knowledge and or experience of the communities served by the Council that can be useful to the Audit Committee					
Experience of strategic planning and translating a vision into clear objectives					
Experience of engaging and working with stakeholders (e.g. residents, community groups, local business etc.)					
Experience and or involvement in change management activities e.g. planning a re-structure or reorganisation					

11. Accountability					
Experience of working with leaders to establish expectations for improvement, outcomes and of how progress is to be reported					
Ability to interpret data and statistics presented in a range of formats relating to the progress and outcomes achieved and using it to identify strengths, weaknesses and areas for development					
Ability and confidence to ask questions and challenge leaders in an appropriate way on matters relating to the outcomes, behaviour, welfare and wellbeing of residents and staff					
General experience of financial planning, monitoring, decision making, compliance and control					
Experience of financial planning, monitoring, decision making, compliance and control within the local government sector					
General experience of human resource (HR) policy and processes outside of the local government sector					
Experience of human resource (HR) policy and processes within the local government sector					
General experience of preparing for and responding to inspection and oversight					
Experience of inspection and oversight within the local government sector					
12. People					
Ability to listen, reflect and learn from a range of viewpoints and consider impartial advice before reaching your own view					
Capable of working alongside and of building strong, collaborative relationships with a range of personalities					
The skills, tact and diplomacy required when discussing issues that are of a sensitive nature and are used to bring people together in adversarial situations					
13. Structures					
Clear and practical understanding of what the strategic role of a Councillor is and how it is different from the management responsibilities that are carried out by the Chief Executive and senior officers in the Council					
Experience of reviewing governance structures					
14. Compliance					
Experience of complying with legal, regulatory and financial frameworks and statutory guidance					
Working knowledge of the legal duties and responsibilities of a Councillor					
Understand the importance of adhering to organisation policies e.g. on complaints or staff-discipline issues					
15. Evaluation					
Have experienced the process of evaluating the working practices of a team and of applying the learning to make improvements					
16. Positive contribution					
Aware of my strengths, weaknesses and am committed to personal development					
Able to work as part of a team and build positive working relationships with different personality types					
Honest, transparent and act with integrity					
The ability and confidence to speak up when I have concerns e.g. about non-compliance					

Do you have any other specialist knowledge that adds value to the Audit Committee?

Eg. Professional qualification and / or experience in accountancy, audit, risk management, legal services, IT systems, project management, managing a service etc.

Please give brief details of courses you have undertaken in the past year - include Councillor / governor / trustee training, work based training / development and / or any other development / training activities.

Are there any additional areas of the Audit Committee's responsibilities to which you would like to contribute in the future?

Existing Audit Committee members only

What contribution do you feel you have made to the Audit Committee over the past year?

This page is intentionally left blank

fraud and corruption tracker

Summary Report 2019



**CIPFA COUNTER
FRAUD CENTRE**

Contents

3	Foreword
4	Introduction
5	Executive summary
6	Main types of fraud <ul style="list-style-type: none">– Council tax– Disabled parking (Blue Badge)– Housing– Business rates
12	Other types of fraud <ul style="list-style-type: none">– Adult social care– Insurance– Procurement– No recourse to public funds/welfare assistance– Payroll, recruitment, expenses and pension– Economic and voluntary sector support and debt– Mandate fraud and manipulation of data
16	Serious and organised crime
17	Sanctions
17	Cyber fraud
18	Whistleblowing
18	Counter fraud structure
19	Joint working/data sharing
20	Fighting Fraud and Corruption Locally
21	Recommendations
22	Appendices

Foreword



Rob Whiteman
Chief Executive, CIPFA

As stewards of public money, it's the responsibility of each and every public sector organisation to take an active role in the fight against corruption, bribery and fraud. The impact of financial crime on the public sector is enormous. The diversion of funding from vital public services undermines public trust, financial sustainability, organisational efficiency and makes the vulnerable people in our communities that much worse off.

The CIPFA Fraud and Corruption Tracker (CFaCT) aims to provide a current national picture of public sector fraud and corruption for local authorities and to help identify counter fraud actions that must be taken. The report's findings provide valuable insights designed to help counter fraud practitioners in local government better understand national trends and emerging risks.

This publication is part of CIPFA's commitment to support the public sector and promote the principles of strong public financial management and good governance. Not only do our findings shed valuable light on the fraudulent activities happening in public organisations across our country, but they also showcase the important role that counter fraud measures play in the larger fight against fraud and corruption.

The findings from the 2019 CFaCT survey should not be understated. Understanding the emerging risks that similar sectors face can help organisations in the broader public sector increase their individual awareness, collaborate more effectively and take tailored action to prevent illegal activity from growing in the public sphere.

By working together, all agencies involved in protecting public resources can improve clarity and efficiency in tackling fraud. Ultimately the improved outcomes that result will benefit all communities.

The survey was supported by:

**Fighting
Fraud &
Corruption**
LOCALLY

**Local
Government**
Association

The CIPFA Counter Fraud Centre

The CIPFA Counter Fraud Centre (CCFC) was launched in 2014. Building on CIPFA's 130-year history of championing excellence in public finance management, we offer a range of products and services to help organisations detect, prevent and recover fraud losses. We support the national counter fraud and anti-corruption strategy for local government, Fighting Fraud and Corruption Locally and were named in the UK Government's 2014 Anti-Corruption Plan and in the 2017–22 Anti-Corruption Strategy as having a key role to play in combating corruption, both within the UK and abroad. Through the annual CFaCT survey, we lead on measuring and monitoring fraud, bribery and corruption activity across local government.



**CIPFA COUNTER
FRAUD CENTRE**

Acknowledgements

CIPFA would like to thank all the organisations that completed the survey along with those that helped by supporting, contributing insights and best practices, including:

- Local Government Association
- Home Office
- The Fighting Fraud and Corruption Locally board



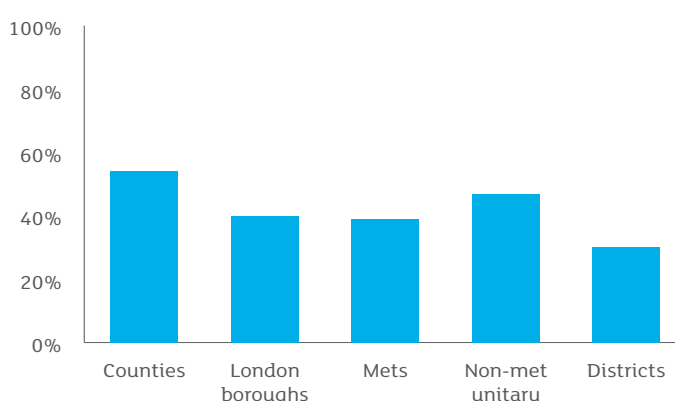
Introduction

CIPFA recognises that each pound lost to fraud represents a loss to the public purse and reduces the ability of the public sector to provide services to people who need them. According to the Annual Fraud Indicator 2017, which provides the latest set of government sanctioned estimates, fraud costs the public sector at least £40.3bn annually, £7.8bn of which is specifically in local government.

Fraud is a widespread cause of concern in the public sector and remains a constant financial threat to local authorities. This is an ongoing issue in the sector and partners such as the Local Government Association (LGA), the National Audit Office and the Home Office actively work towards new ways of finding solutions to the challenges unique to government.

CIPFA conducted its fifth annual CFaCT survey in May 2019, with the aim of creating a national picture of the types of fraud and amount prevented or detected in local authorities. The results were received from local authorities in all UK regions, allowing CIPFA to estimate the total figures for fraud across England, Scotland, Wales and Northern Ireland.

Response rate



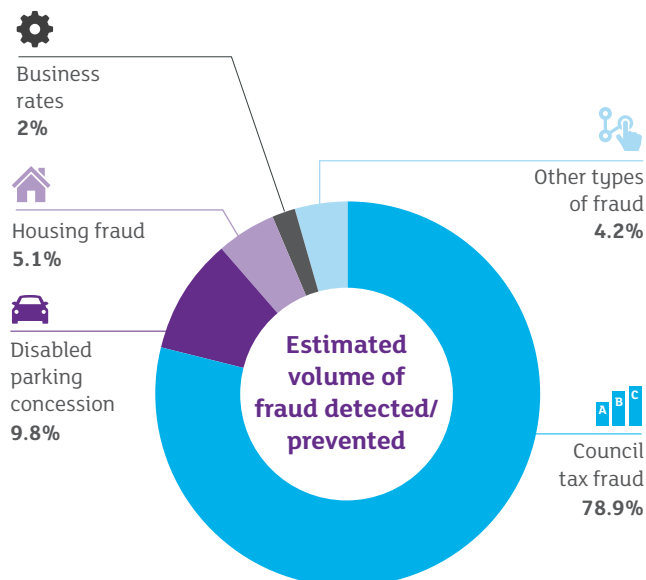
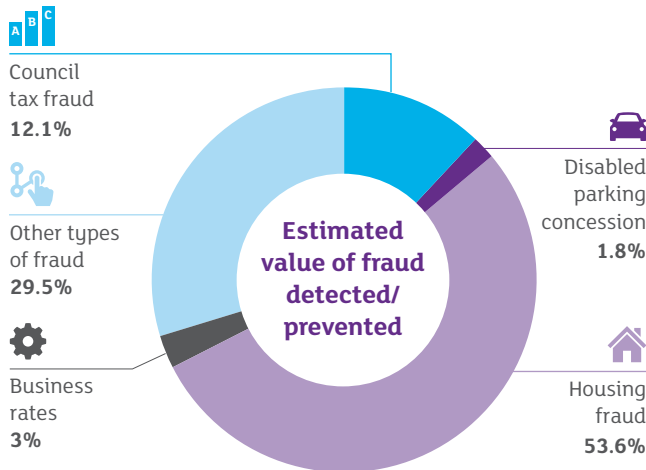
This report highlights the following:

- the types of fraud identified in the 2018/19 CFaCT survey
- the monetary cost of fraud in 2018/19
- the impact of counter fraud and prevention activities to improve the public sector budget
- the emerging risks and threats impacting the fraud and corruption landscape.



Executive summary

For local authorities in the UK, CIPFA has estimated that the total value of fraud detected or prevented in 2018/19 is approximately £253m, averaging roughly £3,600 per fraud case. In 2017/18 there was an estimated value of £302m with a similar average of £3,600 per case detected or prevented.



The decrease in the total value can be largely attributed to the successful work by public authorities in housing, which has seen a year-on-year reduction in the total number of unlawfully sublet properties and false right to buy applications.

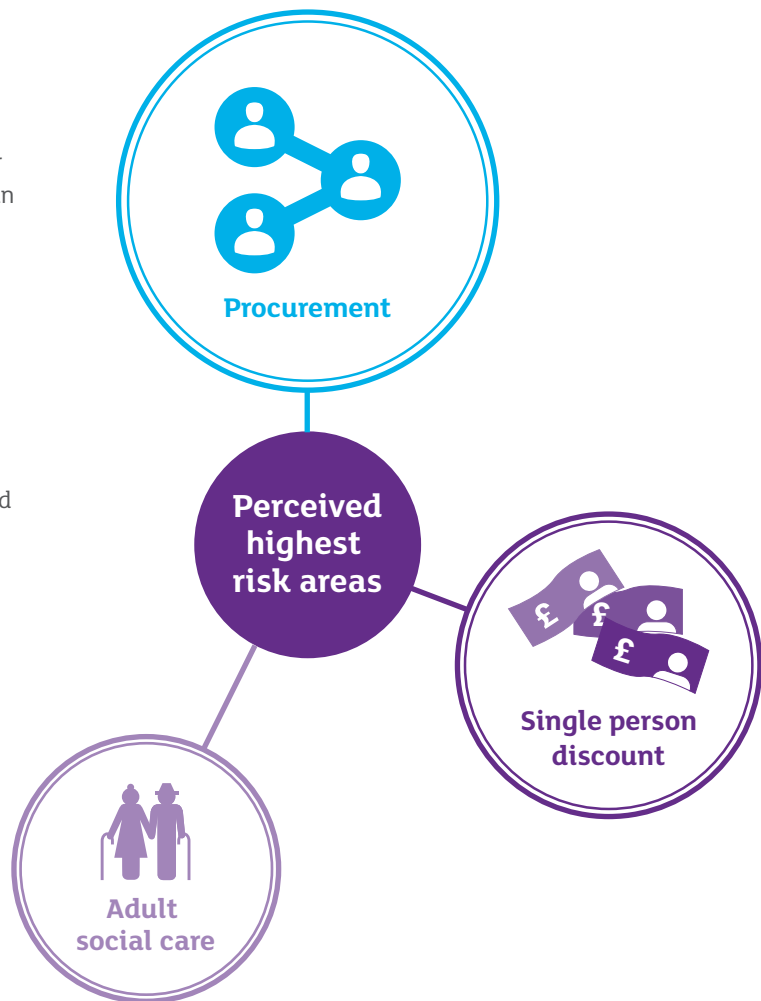
Improvements in the review of allocations and applications by many local authorities have limited the risk of new fraud cases and strengthened overall degrees of prevention. Together with low rates of tenancy turnover associated with the current social housing stock, this prevention strategy has been highly effective.

Councils reported that approximately 71,000 instances of fraud had been detected or prevented in 2018/19, which is lower than the approximate 80,000 reported by CIPFA in 2017/18. Council tax fraud represents 78% of these identified instances of fraud with an estimated value of £30.6m followed by disabled parking concession (Blue Badge scheme) and housing frauds representing 10% and 5% of the total cases of UK public sector fraud, respectively.

The area that has grown the most in the last year is council tax single person discount (SPD) with an estimated increase of £3.6m since 2017/18.

The three highest perceived fraud risk areas for 2018/19 remain unchanged from the previous iteration of this survey: procurement, council tax SPD and adult social care respectively.

Survey results show that nationally, the primary perceived issue that respondents think needs to be addressed to effectively tackle the risk of fraud and corruption is capacity – ie sufficient counter fraud resource. Better data sharing and effective fraud risk management follow as secondary and tertiary areas for improvement. Results from respondents have shown that they expect to increase the number of counter fraud specialist staff by 9% over the next year, a continuation of an upward trend for employing counter fraud specialists in councils.



In the last year, the value of fraud detected and prevented by local authorities in the UK was

£253m



Major fraud areas

For 2018/19, the CFaCT survey has shown that the four main areas of fraud (by volume) that local authorities are tackling are:

- council tax
- disabled parking (Blue Badge)
- housing
- business rates.

A B C Council tax

Council tax has continued to be the largest area of identified fraud over the last three years and is the top fraud risk for districts and unitaries, 43% and 26%, respectively. Although the volume is significantly higher when compared to other fraud risk areas, council tax does not represent the highest cumulative value amongst all surveyed types of fraud, estimated to total £30.6m. This high volume/low value continues to be a leading trend each year.

Table 1: Estimated council tax fraud

	2016/17		2017/18		2018/19	
	Volume	Value	Volume	Value	Volume	Value
SPD	50,136	£19.5m	46,278	£15.8m	44,051	£19.4m
CTR	6,326	£4.8m	8,759	£6.1m	8,973	£7.2m
Other	674	£1.1m	2,857	£4.5m	2,831	£4.0m
Total	57,136	£25.5m	57,894	£26.3m	55,855	£30.6m

The total number of detected and prevented fraud cases for council tax fell in 2018/19 after rising in previous years. However, the average values of frauds, especially for SPD, has risen resulting in an increase in the total value.

55,855

instances of council tax fraud amounted to



£30.6m

in the last year



Disabled parking (Blue Badge)

The survey has identified misuse of the Blue Badge scheme as one of the fraud risk areas that is increasing steadily. Although the number of cases has nearly halved since last year, the national estimated average value per case has increased from £499 to £657 in 2018/19. Although this value does not include cases with a normal cancellation upon death of the individual, the increase is likely to continue with new criteria in guidance released by the Department for Transport and Ministry of Housing, Communities & Local Government (MHCLG).

This guidance states that the Blue Badge scheme now extends to individuals with less 'visible' disabilities, such as dementia or anxiety disorder – one of the biggest changes to the scheme in nearly 50 years. These extended criteria came into effect in August 2019 and coincide with the launch of a new task force to aid local authorities in the prevention and detection of Blue Badge fraud.¹

This indicates that although procurement, council tax SPD and adult social care are identified nationally as the three main fraud risk areas,

Blue Badge fraud is an area of increasing risk and prominence.

Due to the varying nature of cases and local authorities' individual calculation methods, at present there is no standard means of calculating the value of Blue Badge fraud. It is challenging to directly compare the value of fraud cases detected/prevented across all UK authorities.

For example, Greater London authorities place a higher value against the fraud loss in comparison to other local authorities, with an average value of £3,340 per case compared to counties who had an average of £260 per fraud case; this is partially due parking fees being much higher in Greater London.



Fraud from the misuse of the Blue Badge scheme is a fraud area that is steadily increasing.



The average case of Blue Badge fraud has increased from **£499** to **£657**



¹ www.gov.uk/government/news/review-of-blue-badge-fraud-as-scheme-is-extended-to-those-with-hidden-disabilities



Housing and tenancy fraud

In relation to housing fraud, councils record the income lost using different valuations that can range from a notional cost of replacing a property to the average cost for keeping a family in bed and breakfast accommodation for a year. These different approaches make it challenging to formulate clear comparisons. On a national scale, the value of fraud detected or prevented is considered in the two following ways:

- if the cases were pertaining to new-build accommodation
- if the cases were pertaining to temporary accommodation.

Table 2: Estimated housing fraud

Type of fraud	2016/17	2017/18	2018/19
	Volume	Volume	Volume
Right to buy	1,284	1,518	652
Illegal sublet	1,829	1,051	826
Other*	2,825	2,164	2,154
Total	5,938	4,733	3,632

*Other includes tenancy frauds that are neither right to buy nor illegal sublet, and may include succession and false applications.

3,632

instances of housing fraud
occurred in the UK last year



In cases regarding new-build accommodations an average of £150k per fraud case is applied, compared to £18k for cases regarding temporary accommodations. This can be further explored by examining the comparison by tier (see Table 2).

There has been a steady downward trend in the number of housing and tenancy related frauds detected/prevented, decreasing by roughly 20% year-on-year. This trend likely indicates successful efforts by local authorities to tackle housing fraud and remove illegally sublet properties from the system.



Business rates

Business rate fraud represents 2% of the total estimated number of fraud cases detected or prevented in 2018/19. This represents a marginal increase from the previous year's figure of 1.7% and is reflected in the fact that councils reported it as the fifth highest fraud risk area on a national scale and third highest specific to districts.

Examples of business rates fraud include fraudulent applications for exemptions, tax

relief and the failure to list properties as being a business address. It often takes a visit from someone in the fraud team to discover the truth.

Even with the increased percentage overall, the estimated loss decreased to £8m from £10m the previous year.

Business rate fraud represents



2%

of all detected and prevented cases of fraud in the UK

Other types of fraud

This section of the report examines survey responses related to other notable types of fraud that did not emerge as major types of fraud within the national picture. This section includes the following fraud types, among others²:

- adult social care
- insurance
- procurement
- no recourse to public funds/welfare assistance
- economic and voluntary sector support and debt
- payroll, recruitment, expenses and pension
- mandate fraud and manipulation of data.



Adult social care

Table 3: Estimated adult social care fraud

Type of fraud	2016/17		2017/18		2018/19	
	Volume	Value	Volume	Value	Volume	Value
Personal budget	264	£2.7m	334	£3.2m	234	£9.6m*
Other	182	£2.8m	403	£3.5m	246	£4.1m
Total	446	£5.5m	737	£6.7m	480	£13.7m*
Average value per fraud		£12k		£9k		£29k*

*Please note that this figure is inflated by a small number of authorities and though it is not comparable, it shows the scope of fraud possible in this area.

In 2018/19, there was a reversal of the trend of a steady decline in the average value per fraud of adult social care. In 2018/19 the average value of personal budget fraud increased, primarily as a result of a small number of very high value frauds identified in two councils. Excluding these cases, the decline in the value and volume of personal budget frauds continued. Other fraud also showed a decline in numbers of cases identified but the average value increased.

² An explanation of each fraud can be found in the Glossary on page 23.



Insurance fraud

This year's survey reports an estimated number of 318 insurance fraud cases, valued cumulatively at £12.6m. In comparison to the previous year, both the estimated volume and value of insurance fraud cases in the UK more than doubled.

Respondents who identified insurance fraud also reported two confirmed insider fraud cases with a combined value of £43k.

Local authority insurance fraud cases included in this survey are a mixture of both one-off,

high-value employer liability claims (such as injury at work) and frequent, low-value public liability claims (such as 'slips and trips' or property damage).

Through pro-active risk management, many risks faced by councils are being effectively identified, treated and managed. In turn, these actions have led to more effective controls and better review and management of red flags against high risk claims, contributing to higher levels of fraud prevention or detection.



Procurement fraud

For the third year in a row, procurement fraud is seen as the highest fraud risk area. Services are constantly being procured by councils and fraud can take place at any point in the supply chain, making it difficult to both detect and measure especially once a contract has been awarded. Councils also undertake large value infrastructure and regeneration projects, usually subjected to outsourcing. As councils are responsible for the funding of these large projects, when procurement fraud does occur the sums can be significant.

This year, there was an estimated number of 125 prevented or detected procurement frauds with 12% of cases reported being insider fraud and 5% classified as serious and organised crime. This is a continued decline from 142 estimated fraudulent cases with a value of £5.2m in 2017/18 and 197 cases with a value of £6.2m in 2016/17.

Table 4: Estimated procurement fraud

2016/17		2017/18		2018/19	
Volume	Value	Volume	Value	Volume	Value
197	£6.2m	142	£5.2m	125	£20.3m*

*Please note this figure is attributable to mainly one organisation and though it is not comparable to other respondents, it shows the scope for fraud in this area.

This year, there was an estimated number of

125

prevented or detected procurement frauds.

Over the past 12 months MHCLG has been leading a review into the risks of fraud and corruption in local government procurement as committed to in the UK Government's Anti-Corruption Strategy 2017-2022.



Welfare assistance and no recourse to public funds

In 2018/19, the estimated number of fraud cases related to welfare assistance dropped significantly to 24. In 2017/18 and 2016/17 there were an estimated 109 and 74 cases, respectively. The scope for the volume of cases authorities can receive in this area was demonstrated last year where the average number of cases per authority was over three times the level identified in 2018/19.

2018/19 saw the number of no recourse to public funding cases fall to an estimated 148, down from an estimated 334 cases in the previous year. This decline can possibly be attributed to fewer respondents detecting/preventing fraudulent activity in this area.



Economic and voluntary sector (grant fraud) and debt

The number of grant fraud cases reported by local authorities responding to the survey has reduced to six cases with an average value per fraud loss of approximately £4,000. In the 2016/17 survey, there were 17 actual cases of grant fraud reported, which increased in 2017/18 to 24 cases with an average estimated loss of £14,000 per case.

The number of debt cases reported has increased to 53, and is valued at over £495,000 this year, compared to 38 reported cases in 2017/18 valued at over £150,000. This year, both the number and value of debt fraud cases increased, despite a decline in the survey's response rate. This might indicate that debt fraud likely has a higher scope for fraudulent activity than previously expected.



The number of grant fund fraud cases reported by local authorities has gone down to six.





Payroll, expenses, recruitment and pension

The total value of the fraud loss for these four areas in 2018/19 was an estimated £9.42m. This figure was inflated by one incident of payroll fraud that was prevented by an authority and though it is not comparable on a national basis, it reflects the scope of fraud for this area.

Measuring the cost of these frauds can be quite difficult as they carry implications that include reputational damage, the costs of further recruitment and investigations into the motives behind the fraud. This could indicate that some organisations are less likely to investigate or report investigations in these areas.

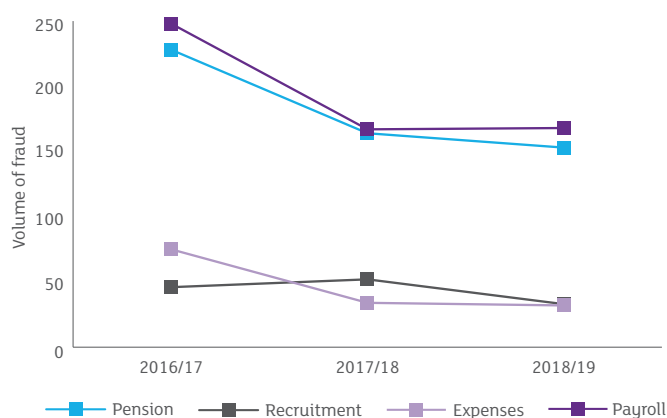
Payroll has had the highest volume and value of fraud out of these four areas (payroll, expenses, recruitment and pension) for every year since 2016/17. Recruitment fraud has the second highest with an estimated average per case of £11,381.

Table 5: Estimated payroll, expenses, recruitment and pension fraud

Type	2016/17		2017/18		2018/19	
	Volume	Value	Volume	Value	Volume	Value
Payroll	248	£1.0m	167	£1.01m	168	£8.77m*
Expenses	75	£0.1m	34	£0.03m	32	£0.04m
Recruitment	46	£0.2m	52	£0.49m	33	£0.38m
Pension	228	£0.8m	164	£0.57m	153	£0.23m
Total	597	£2.1m	417	£2.1m	386	£9.42m*

*Please note this figure is attributable to mainly one organisation and though it is not comparable to other respondents, it shows the scope for fraud in this area.

Changes in fraud volume



Manipulation of data (financial or non-financial) and mandate fraud

CIPFA estimates that across the UK in 2018/19 there were 34 cases of manipulation of data fraud, which is an increase from the estimated cases in 2017/18 following a dip compared to the year before that.

There were 322 estimated cases of mandate fraud in 2018/19 compared to 257 estimated cases detected or prevented in 2017/18.

Serious and organised crime

Organised crime often involves complicated and large-scale fraudulent activities which cross more than one boundary, such as payroll, mandate fraud, insurance claims, business rates and procurement. These activities demand considerable resources to investigate and require organisations to co-operate in order to successfully bring criminals to justice.

The 2018/19 survey identified 24 cases of serious and organised crime, a decrease from the 56 in 2017/18 which had doubled from the year before that. All of this year's cases come from metropolitan, districts, London boroughs and counties. This may indicate that larger and more complex authorities bear a greater risk of being targeted by serious and organised crime. The responses show that councils share a significant amount of data both internally and externally,

with 72% sharing data with the Cabinet Office/ National Fraud Initiative, 52% sharing data with the police and 49% sharing data with their peers (other councils).

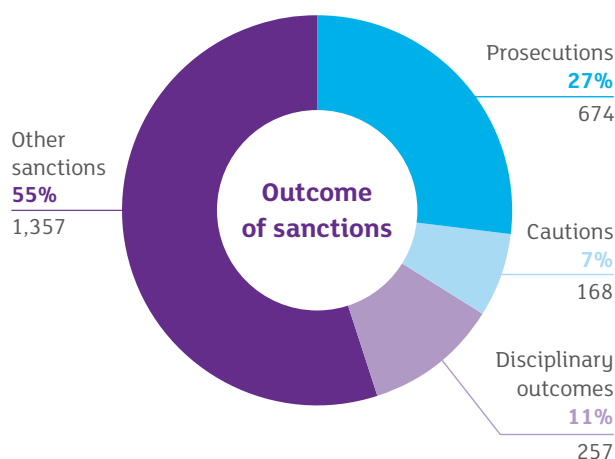
Of the organisations that responded, 35% identified serious and organised crime within their organisation's risk register.



Sanctions

The following shows some of the key findings from sanctions that are being used in CFaCT 2018/19:

- 674 prosecutions were completed in 2018/19. Of these 17 involved insider fraud and 14 of those insider fraud cases were found guilty.
- The number of cautions increased from 9% in 2016/17 to 13% in 2017/18 but reduced to 7% in 2018/19.
- The percentage of other sanctions dropped from 53% in 2016/17 to 46% in 2017/18 but increased to 55% in 2018/19.



Cyber fraud

Results from the CFaCT survey show that 74% of respondents last underwent a cyber/e-fraud risk assessment during or after 2018/19 and 78% state that the IT team/senior information risk owner is responsible for the management of cyber risk in their organisation.

Twenty seven percent of respondents stated that their organisation had been a victim of hacking/distributed denial of service attacks in the last month.

In response to the threat of cybercrime against local government, the LGA has set up a Cyber Security Programme and a stakeholder group, working to address the issues.

The LGA's Cyber Security Programme received three years of funding from the National Cyber Security Programme (NCSP) in 2018 to help councils remain safe from cyber attacks and put appropriate arrangements in place to deal effectively with a cyber incident should it occur, ie both prevention and response.

Whistleblowing

This year, 67% of respondents said they annually reviewed their whistleblowing arrangements in line with BS PAS 1998:2008 Whistleblowing Arrangements Code of Practice. Councils also named other codes of practices with which they are aligning.

Of those questioned, 86% confirmed that staff and the public had access to a helpdesk and 70% said that the helpline conformed to the BS PAS1998:2008.

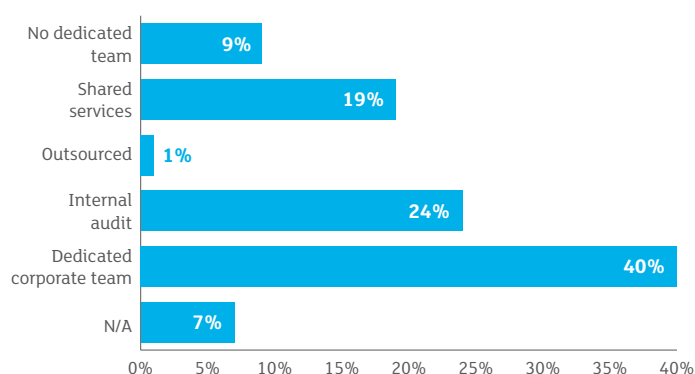
Respondents reported a total of 755 whistleblowing cases logged, made in line with

BS PAS 1998:2008, representing disclosures in all areas – not just with regard to suspected fraudulent behaviour. This is an average of six cases logged per authority, double last year's average of three per authority. Responses showed that the majority of cases were logged by London councils and metropolitan districts.

Counter fraud structure

Fraud teams across local government continue to detect and prevent a significant amount of fraud, although counter fraud resource is the main perceived issue that need to be addressed to tackle fraud. Councils are responding to this perceived need and expect the number of counter fraud specialist staff to grow by around 9% in the next year, followed by a small increase in 2021.

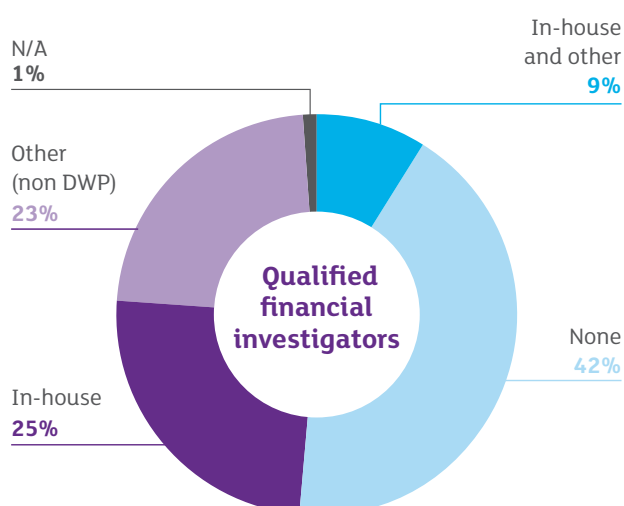
Counter fraud structure breakdown



Adopting a shared services structure is increasingly popular and this year it was reported that 19% of respondents have such a structure compared to 14% last year. Some smaller authorities have likely adopted this approach for its associated resiliency and cost efficiency.

There has been a decrease in authorities that have a dedicated counter fraud team – from 51% in 2017/18 to 40% in 2018/19. However, it is worth noting there may be a potential bias in this figure as those who have a dedicated counter fraud team are more likely and able to return data for the CFaCT survey.

The number of available in-house qualified financial investigators has increased from 31% in 2017/18 to 44% in 2018/19. In addition, the percentage of authorities that have a non-Department of Work and Pensions (DWP) qualified financial investigator increased from 23% in 2017/18 to 25% in 2018/19. However, the number of authorities that don't have a qualified financial investigator available to their organisation has increased from 41% last year to 43%.



Joint working/data sharing

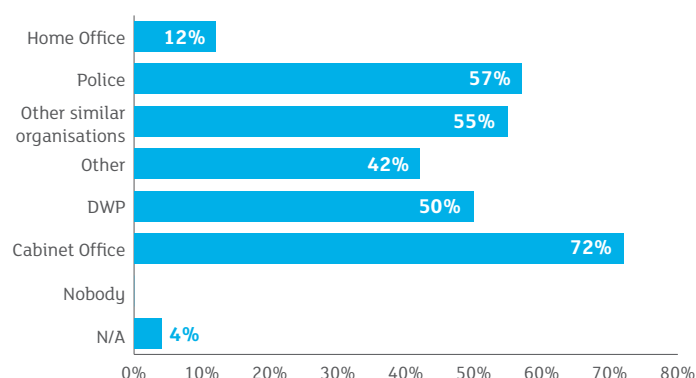
Eighty-nine percent of survey respondents have stated that they share data internally, mainly with housing, council tax and revenue/benefits departments.

Ninety-six percent of local authorities share data externally which is an increase of 2% from 2017/18. This data is mainly shared with Cabinet Office/National Fraud Initiative (72%), police (57%), other authorities/similar organisations (55%) and the DWP (50%).

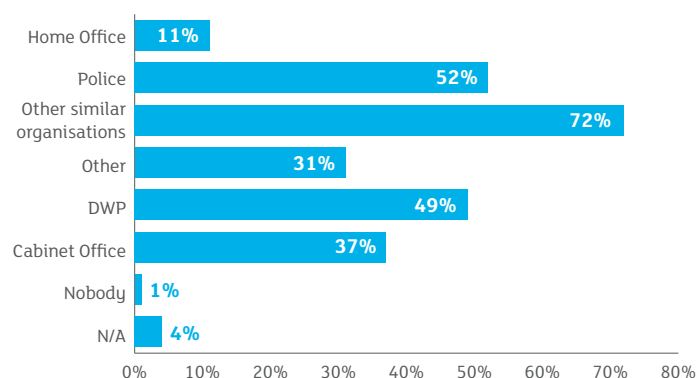
The sort of data that is shared relates to persons of interest, areas of interest and emerging frauds. Some authorities also highlighted that the kind of data they share is for data-matching purposes.

Of the CFaCT respondents, 72% say they work jointly with other similar organisations/peers, 52% work with the police and 49% with the DWP. Further breakdown is shown in the following chart.

Share/exchange data with:

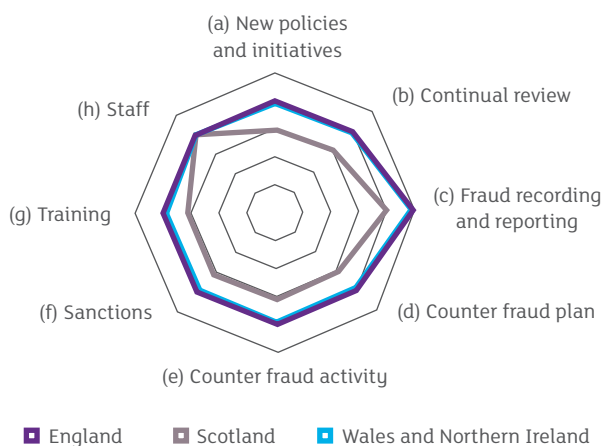


Work jointly with:



Fighting Fraud and Corruption Locally

The Fighting Fraud and Corruption Locally (FFCL) Strategy 2016-2019 was developed by local authorities and counter fraud experts and is currently being reviewed. It is the definitive guide for local authority leaders, chief executives, finance directors and all those with governance responsibilities.



This strategy is available for councils to use freely, so that everyone can benefit from shared good practice, and is aimed at local authority leaders. It provides advice on how to lead and communicate counter fraud and corruption activity for the greatest impact, as well as covering resource management and investment in counter fraud operations.

To measure the effectiveness of its 2016-2019 strategy, the FFCL board includes questions in the CFaCT survey. The questions ask respondents whether they agree or disagree that their organisation is carrying out certain actions, based on FFCL recommendations. The diagram to the left illustrates the results; lines closest to the outside edge indicate strong agreement while those towards the centre indicate disagreement.



The FFCL strategy is the definitive guide for local authority leaders. Everyone can benefit from good practice.



Recommendations

CIPFA recommends

- **The cumulative value of fraud prevented/detected by local authorities has declined year-on-year.** Public sector organisations must remain vigilant and determined in identifying and preventing fraud throughout their procurement processes.
- **This year's findings show that shared services counter fraud structures are becoming more popular amongst authorities.** Effective practices for detecting and preventing fraud should be shared and adopted across the sector. Fraud prevention should be embedded in 'business as usual' across an entire organisation to improve the effectiveness of preventative measures.
- **Although the number of qualified investigators has increased over the past year, the survey shows a decline in the number of authorities with a dedicated counter fraud team.** All staff, across all public sector work functions, should receive fraud awareness training in order to better identify fraud risks, fraud attempts and implement effective controls.
- **According to respondents, a lack of adequate counter fraud resources is the main perceived issue that needs to be addressed to effectively tackle fraud.** All organisations should ensure that they have strong counter fraud leadership at the heart of senior decision-making teams. Fraud teams and practitioners should be supported in presenting business cases to resource their work effectively.
- **The survey shows that the overwhelming majority of authorities share data externally, however vast discrepancies exist among the organisations that receive that shared data.** Public sector organisations should continue to maximise opportunities to share data and to explore innovative use of data, including sharing with law enforcement bodies and third party experts.
- **In the past year, 89% of local authorities shared fraud-related data internally.** Where counter fraud functions are decentralised within an authority, counter fraud leads should ensure effective inter-departmental collaboration (ie between housing, IT (cyber security), revenues, etc). For some authorities, necessary collaboration could be achieved through the formation of a counter-fraud working group.
- **In-line with the FFCL Strategy 2016-2019,** the importance of the fraud team's work should be built into both internal and external communication plans. Publicly highlighting a zero tolerance approach can work to improve the reputation and budget position of authorities.



The importance of the fraud team's work should be built into both internal and external communications plans. ”

Appendix 1: Fraud types and estimated value/volume

The table below shows the types of frauds reported in the survey and the estimated volume and value during 2018/19.

Types of fraud	Fraud cases	% of the total	Value	% of the total value	Average
Council tax	55,855	78.9%	£30.6m	12.1%	£548
Disabled parking concession	6,951	9.8%	£4.6m	1.1%	£657
Housing	3,632	5.1%	£135.6m	53.6%	£37,332
Business rates	1,404	2.0%	£7.7m	3.0%	£5,455
Other fraud	616	0.9%	£6.0m	2.4%	£9,779
Adult social care	480	0.7%	£13.7m*	5.4%*	£28,534*
Schools frauds (excl. transport)	391	0.6%	£0.7m	0.3%	£1,893
Mandate fraud	322	0.5%	£4.7m	1.8%	£14,506
Insurance claims	318	0.5%	£12.6m	5.0%	£39,636
Payroll	168	0.2%	£8.8m*	3.5%*	£52,270*
Pensions	153	0.2%	£0.2m	0.1%	£1,498
No recourse to public funds	148	0.2%	£1.4m	0.6%	£9,483
Procurement	125	0.2%	£20.3m*	8.0%*	£161,565*
Debt	77	0.1%	£0.6m	0.2%	£7,278
Manipulation of data	34	0.1%	na	na	na
Recruitment	33	0.1%	£0.4m	0.2%	£11,381
Expenses	32	0.1%	£0.0m	0.0%	£1,124
School transport	31	0.0%	£4.8m	1.9%	£154,601
Welfare Assistance	24	0.0%	£0.0m	0.0%	£1,824
Children social care	19	0.0%	£0.4m	0.2%	£22,076
Economic and voluntary sector support	14	0.0%	£0.1m	0.0%	£4,005
Investments	2	0.0%	na*	na*	na*

*The figures for investments are not available as only one response was received and thus the amount is not representative of the national average. The other figures in this table are affected by a small number of councils that had high value frauds not indicative of the national average.

Appendix 2: Methodology

This year's results are based on responses from 142 local authorities. An estimated total volume and value of fraud has been calculated for all local authorities in England, Wales, Scotland and Northern Ireland. Missing values are calculated according to the size of the authority and for each type of fraud an appropriate universal measure of size has been selected, such as local authority housing stock for housing frauds.

From the responses, the number of cases per each unit of measurement is calculated and used to estimate the missing values. Then, for each missing authority, the estimated number of cases is multiplied by the average value per case provided by respondents to give an estimated total value. As an illustration, if the number of housing

frauds per house is 0.01 and a missing authority has 1,000 houses in its housing stock, we estimate the number of frauds as 10. If the average value per case is £100,000 then the total estimated value of fraud for that authority is £1m.

Appendix 3: Glossary

Definitions below are taken from CIPFA's CFaCT survey, the Annual Fraud Indicator and other government sources.

Adult social care fraud:

Adult social care fraud can happen in a number of ways but the increase in personal budgets gives a greater opportunity for misuse.

Investigations cover cases where:

- direct payments were not being used to pay for the care of the vulnerable adult
- care workers were claiming money for time they had not worked or were spending the allocated budget inappropriately.

Blue Badge:

The Blue Badge is a Europe-wide scheme allowing holders of the permit to parking concessions which are locally administered and are issued to

those with disabilities so they can park nearer to their destination.

At present, a badge issued to a deceased person is classified as fraudulent, even if it is not being used for fraudulent purposes.

Business rates fraud:

Business rates fraud is not a transparent landscape for the fraud investigator, with legislation making it difficult to separate evasion and avoidance. Business rate fraud may include the fraudulent applications for exemptions and reliefs and unlisted properties, and fraud staff may be used to visit properties in question.

Cautions:

Cautions relate to a verbal warning given in circumstances where there is enough evidence to prosecute, but it is felt that it is not in the public interest to do so in that instance.

Council tax fraud:

Council tax is the tax levied on domestic properties and collected by district and unitary authorities in England and Wales and levying authorities in Scotland.

Council tax fraud is split into three sections:

- Council tax single person discount – where the council tax payer claims for occupiers who don't exist they are the only occupant eligible to pay.
- Council tax reduction support – where the council tax payer fails to declare their income correctly.
- Other types of council tax fraud – eg claims for exemptions or discounts to which the council tax payer has no entitlement.

Debt fraud:

Debt fraud includes fraudulently avoiding a payment of debt to an organisation, excluding council tax discount.

Disciplinary outcomes:

Disciplinary outcomes relate to the number of instances where as a result of an investigation by a fraud team, disciplinary action is undertaken, or where a subject resigns during the disciplinary process.

Economic and voluntary sector (grant fraud):

This type of fraud relates to the false application or payment of grants or financial support to any person and any type of agency or organisation.

Housing fraud:

Fraud within housing takes a number of forms, including sub-letting for profit, providing false information to gain a tenancy, wrongful tenancy assignment and succession, failing to use the property as the principle home abandonment, and right to buy.

Insurance fraud:

Insurance fraud includes any insurance claim that is proved to be false, made against the organisation or the organisation's insurers.

Mandate fraud:

Action Fraud defines mandate fraud as "when someone gets you to change a direct debit, standing order or bank transfer mandate, by purporting to be an organisation you make regular payments to, for example a subscription or membership organisation or your business supplier".

Manipulation of data fraud:

The majority of manipulation of data frauds relate to employees changing data in order to indicate better performance than actually occurred and staff removing data from the organisation. It also includes individuals using their position to change and manipulate data fraudulently or in assisting or providing access to a family member or friend.

No recourse to public funds:

No recourse to public funds prevents any person with that restriction from accessing certain public funds. A person who claims public funds despite such a condition is committing a criminal offence.

Organised crime:

The widely used definition of organised crime is one planned, co-ordinated and conducted by people working together on a continuing basis. Their motivation is often, but not always, financial gain.

Payroll fraud:

Payroll fraud covers a wide range of areas such as ghost employees on the payroll, diversion of payments into fraudulent accounts, employees set up to receive higher salaries than they are entitled to by either grade or hours worked and false overtime claims.

Procurement fraud:

The procurement of goods and services often accounts for a significant proportion of an organisation's expenditure and is open to a wide range of potential fraud risks. This is because there are usually multiple individuals involved in a process who often do not work closely together: ie the person who wants something purchased does not always work directly with the people who initiate orders and with those responsible for paying.

This includes any fraud associated with the false procurement of goods and services for an organisation by an internal or external person(s) or organisations in the 'purchase to pay' or post contract procedure, including contract monitoring.

Recruitment fraud:

Recruitment fraud includes applicants providing false CVs, job histories, qualifications, references, immigration status (ie the right to work in the UK) or the use of a false identity to hide criminal convictions or immigration status.

Right to buy:

Right to buy is the scheme that allows tenants that have lived in their properties for a qualifying period the right to purchase the property at a discount. Fraud is committed when an applicant has made false representations regarding the qualifying criteria, such as being resident in the property they are purchasing for a 12 month continuous period prior to application.

Welfare assistance:

Organisations have a limited amount of money available for welfare assistance claims so the criteria for applications are becoming increasingly stringent. Awards are discretionary and may come as either a crisis payment or some form of support payment.

Whistleblowing:

Effective whistleblowing allows staff or the public to raise concerns about a crime, criminal offence, miscarriage of justice or dangers to health and safety in a structured and defined way. It can enable teams to uncover significant frauds that may otherwise have gone undiscovered. Organisations should therefore ensure that whistleblowing processes are reviewed regularly.



Registered office:

77 Mansell Street, London E1 8AN

T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700

www.cipfa.org

The Chartered Institute of Public Finance and Accountancy.
Registered with the Charity Commissioners of England and Wales No 231060

